



## **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**

Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines  
Telephone No. +6382 235 8888

### **₱10.0 Billion Commercial Papers Program**

**Sole Issue Manager for the Commercial Papers Program**



**Initial Series of the Commercial Papers Program:  
Offer of the Commercial Paper Series A with an aggregate principal  
amount of up to ₱7.0 Billion Commercial Papers**

**Lead Underwriter and Sole Bookrunner for the Initial Series**



**Co-Lead Manager for the Initial Series**

[●]

**Preliminary Prospectus dated 17 October 2018**

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PRELIMINARY PROSPECTUS ("PROSPECTUS") IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**

Stella Hizon Reyes Road,  
Bo. Pampanga, Lanang  
Davao City, Philippines  
Telephone No. +6382 235 8888



**P-H-O-E-N-I-X Petroleum Philippines, Inc.** (the "Issuer", "Phoenix" or the "Company") is offering commercial papers with an aggregate principal amount of up to ₱10,000,000,000, to be issued and reissued, in whole or in part and in one or more series (each issuance and reissuance of Commercial Papers under the Commercial Paper Program shall be referred to as a "Commercial Paper Series", and collectively, the "Commercial Papers"), under a program (the "Commercial Papers Program"), provided that the outstanding principal amount of the Commercial Papers at any time shall not exceed Ten Billion Pesos (₱10,000,000,000).

On [•], Phoenix filed a Registration Statement with the Philippine Securities and Exchange Commission ("SEC") in connection with the offer and sale to the public of the Commercial Papers up to an aggregate principal amount of ₱10,000,000,000 under a Commercial Papers Program, which shall be issuable and reissuable, in whole or in part, in one or more series.

The SEC is expected to issue an order rendering the Registration Statement effective (the "RS Effectivity Date"), and a corresponding permit to offer securities for sale covering the Commercial Papers Program. Within three (3) years following the RS Effectivity Date, the Company may, in consultation with the Issue Manager, issue or reissue up to an aggregate principal amount of ₱10,000,000,000, in whole or in part, of Commercial Papers covered by such Registration Statement, in one or more series under Rule 12.1.2.5 of the Implementing Rules and Regulations of the Securities Regulation Code ("SRC-IRR"), provided that the outstanding principal amount of the Commercial Papers at any time shall not exceed Ten Billion Pesos (₱10,000,000,000). This provides the Company with the ability to take advantage of opportunities in a volatile debt capital market, as these occur.

Phoenix likewise filed an application for the listing and trading of the [initial series of the Commercial Papers up to an aggregate principal amount of ₱7,000,000,000] with the Philippine Dealing and Exchange Corporation ("PDEX") on [•].

However, these can be no assurance in respect of: (i) whether Phoenix would issue such Commercial Papers at all; (ii) the size or timing of any individual issuance (or reissuance) or the total issuance (or reissuance) of such Commercial Papers; or (iii) the specific terms and conditions of any such issuance (or reissuance). Any decision by Phoenix to offer the Commercial Papers will depend on a number of factors at the relevant time, many of which are not within Phoenix's control, including, but not limited to: prevailing interest rates, the financing requirements of Phoenix's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

Each Commercial Paper Series (or subseries) shall have a term and fixed discount rate determined prior to issuance. The discount rate on the Commercial Papers shall be calculated on a true-discount basis, and the principal amount of the Commercial Papers shall be repaid in full on the relevant Maturity Date.

Subject to the consequences of default as contained in the [relevant] Trust Indenture, and unless otherwise redeemed prior to the relevant Maturity Date, the Commercial Papers will be redeemed at par (or 100% of face value) on the relevant Maturity Date.

The Commercial Papers shall constitute the direct, unconditional, unsecured and unsubordinated obligations of Phoenix and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of Phoenix, other than obligations preferred by law. The Commercial Papers shall effectively be subordinated to the right of payment to, among others, all of Phoenix's secured debts to the extent the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines (the "**Civil Code**") without a waiver of preference or priority.

The initial series of the Commercial Papers Program, with principal amount of up to ₱7,000,000,000 (the "**Commercial Paper Series A**"), shall be issued on [•] (the "**Issue Date**"), or the immediately succeeding Business Day, if such Issue Date is not a Business Day, or such other date as may be agreed upon by the Issuer and the Sole Issue Manager, Lead Underwriter and Sole Bookrunner.

The Commercial Paper Series A consist of two (2) subseries, CP Series A-1 and CP Series A-2 with an aggregate principal amount of up to ₱7,000,000,000 (the "**Offer**" or the "**Offered CPs**"). The CP Series A-1 shall have a term ending one hundred eighty (180) days from the Issue Date, or on [•], with a fixed discount rate of [•]% per annum (the "**CP Series A-1**"). The CP Series A-2 shall have a term ending three hundred sixty (360) days from the Issue Date, or on [•], with a fixed discount rate of [•]% per annum (the "**CP Series A-1**"). The principal amounts of the CP Series A-1 and CP Series A-2 shall be repaid in full on [•], and [•], respectively, or on the subsequent Banking Day without adjustment if such principal repayment is due on a day that is not a Banking Day.

The Issuer has a rating of PRS [•] as assigned by PhilRatings. The factors considered by PhilRatings in assigning this rating are Phoenix's [•], [•], and [•]. The rating is not a recommendation to buy, sell, or hold securities, and may be subject to revision, suspension, or withdrawal at any time by the rating agency concerned.

For the Commercial Paper Series A, the net proceeds are estimated to be at least ₱6,900,948,191 after deducting fees, commissions and expenses relating to the issuance. Net proceeds of the Commercial Paper Series A are intended to be used to partially finance the Company's working capital requirements and/or to refinance existing short-term loans of the Issuer (see the section entitled "*Use of Proceeds*" of this Prospectus). The Lead Underwriter shall receive a fee of [0.40]% on the final aggregate nominal principal amount of the Commercial Paper Series A.

The Commercial Papers shall be offered to the public at a discount to face value through the Lead Underwriter named herein, with Philippine Depository and Trust Corp. ("PDTC") as the Registrar of the Commercial Papers. It is intended that upon issuance, the Commercial Papers shall be issued in scripless form, with PDTC maintaining the electronic registry of the holders of the relevant Commercial Paper Series (or subseries) (the "**Commercial Paper Holders**"). The Commercial Papers shall be listed in PDEX. The Offered CPs shall be issued in denominations of [₱1,000,000.00] each, as a minimum, and in multiples of [₱100,000.00] thereafter, and traded in denominations of [₱100,000.00] in the secondary market.

The Company reserves the right to withdraw any offer and sale of the Commercial Papers at any time, and the relevant lead underwriter reserves the right to reject any application to purchase the Commercial Papers in whole or in part and to allot to any prospective purchaser less than the full amount of the Commercial Paper sought by such purchaser. If the relevant offer is withdrawn or discontinued, the Company shall subsequently notify the SEC and, as applicable, the PDEX. Any of the

underwriters and selling agents may acquire for their own account a portion of the Commercial Papers.

Each offer of the Commercial Papers will be conducted exclusively in the Philippines and pursuant to requirements under Philippine laws, rules and regulations that may be different from those of other countries and jurisdictions. No action has been or will be taken by the Issuer or any person on behalf of the Issuer to permit an offering of the Commercial Papers in any jurisdiction other than the Philippines, where action for that purpose is required. Accordingly, the Commercial Papers may not be offered or sold, directly or indirectly, nor may any offering material relating to the Commercial Papers be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws, rules and regulations of any such country or jurisdiction.

**All information contained in this Prospectus are deemed qualified by, and should be read together with, the all disclosures, reports and filings of the Company as filed with SEC, the Philippine Stock Exchange PSE (“PSE”) and/or PDEx (collectively, the “Company Disclosures”) pursuant to the Corporation Code, the Securities Regulation Code, and the disclosure rules of PDEx are incorporated or deemed incorporated by reference in this Prospectus. Copies of the Company Disclosures may be viewed at the website of the Company at [www.phoenixfuels.ph](http://www.phoenixfuels.ph). The Company Disclosures contain material and meaningful information relating to the Company and investors should review all information contained in the Prospectus and the Company Disclosures incorporated or deemed incorporated herein by reference.**

Unless the context clearly indicates otherwise, any reference to the Company refers to Phoenix on a consolidated basis, including its consolidated subsidiaries and associates. The information contained in this Prospectus has been supplied by Phoenix, unless otherwise stated herein. Phoenix confirms that, as of the date of this Prospectus, the information contained herein relating to the Company, its operations and those of its affiliates and subsidiaries which are material in the context of the issue and offering of the Commercial Papers (including all material information required by the applicable laws of the Republic of the Philippines), is true and that there is no material misstatement or omission of facts which would make any statement in this Prospectus misleading in any material respect and that Phoenix hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same. The Lead Underwriter and Sole Bookrunner and the Co-Lead Manager have exercised due diligence in ascertaining that all material representations contained in this Prospectus and any amendments and supplements are true and correct and that no material information was omitted, which was necessary in order to make the statements contained herein not misleading.

Phoenix confirms that it has made all reasonable inquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. Phoenix, however, has not independently verified any such publicly available information, data or analysis.

Moreover, market data and certain industry data used throughout this Prospectus were obtained from market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. Similarly, industry forecasts and market research, while believed to be reliable, have not been independently verified, and Phoenix nor the Lead Underwriter does not make any representation or warranty, express or implied, as to the accuracy or completeness of such information.



Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstance, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of Phoenix since such date.

Neither the delivery of this Prospectus nor any sale made pursuant to an offering of the Commercial Papers shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Lead Underwriter does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus.

Each person intending to take part in the Commercial Papers Program shall be deemed to acknowledge that:

- (i) It has been afforded an opportunity to review the Registration Statement and other papers and documents attached thereto relating to the Commercial Papers Program;
- (ii) It has not relied on the Lead Underwriter and/or selling agents or any person affiliated with the Lead Underwriter and the selling agents in connection with its investigation of the accuracy of the information contained in this Prospectus or its investment decision; and
- (iii) No person has been authorized to give any information or to make any representation concerning the Commercial Papers other than those contained in this Prospectus and, if given or made, such other information or representation should not be relied upon as having been authorized by Phoenix or the Lead Underwriter.

The contents of this Prospectus are not to be considered as definitive legal, business, investment, or tax advice. Each prospective purchaser of the Commercial Papers receiving a copy of this Prospectus acknowledges that he has not relied on the Lead Underwriter in his investigation of the accuracy of such information or in his investment decision. In making an investment decision, a prospective purchaser must rely on their own investigation, examination and analysis of the Company and the terms of the Commercial Papers, including, without limitation, the merits and risks involved, an assessment of the Company's creditworthiness, such prospective purchaser's own determination of the suitability of any such investment with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment. Neither Phoenix nor the Lead Underwriter makes any representation to any prospective purchaser regarding the legality of participating in the Commercial Papers Program under any law or regulation. Each person should be aware that it may be required to bear the financial risks of any participation in the Commercial Papers Program for an indefinite period of time. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Commercial Papers, among others. Investing in the Commercial Papers involves certain risks. Any decision to invest in the Commercial Papers must be based on the information contained in this Prospectus. For a discussion of certain factors to be considered in respect of an investment in the Commercial Papers, see the section entitled "Risk Factors" of this Prospectus.

No dealer, salesman or other person has been authorized by Phoenix and the Lead Underwriter to give any information or to make any representation concerning the Commercial Papers other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by Phoenix or the Lead Underwriter.

The financial information included in this Prospectus has been derived from the consolidated financial statements of Phoenix and its subsidiaries. Unless otherwise indicated, the description of the Company's business activities in this Prospectus is presented on a consolidated basis. Unless otherwise indicated, financial information in this Prospectus has been prepared in accordance with Philippine Financial Reporting Standards ("**PFRS**").

In this Prospectus, references to "Pesos" or "₱" are to the lawful currency of the Philippines. This Prospectus contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. In addition, unless otherwise indicated, US Dollar/Philippine Peso exchange rates referred to in this Prospectus are Bangko Sentral ng Pilipinas ("**BSP**") reference exchange rates for the indicated period or on the applicable date, as relevant. No representation is made that the Peso, U.S. Dollar, or other currency amounts referred to herein could have been or could be converted into Pesos, U.S. Dollars, or any other currency, as the case may be, at this rate, at any particular rate or at all. Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

This Prospectus includes forward-looking statements. Phoenix has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. The words "believes," "may," "will," "estimates," "continues," "anticipates," "intends," "expects" and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward- looking events and circumstances discussed in this Prospectus might not occur. Phoenix's actual results could differ substantially from those anticipated in Phoenix's forward-looking statements.

Phoenix is organized under the laws of the Philippines. Its principal office address is Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines, with telephone number +6382 235 8888.

Any inquiries regarding this Prospectus should be addressed to P-H-O-E-N-I-X Petroleum Philippines, Inc. (Attention: Office of the Corporate Secretary) at Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines, with telephone number +6382 235 8888.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OF COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.

By:

DENNIS A. UY  
President and Chief Executive Officer

SUBSCRIBED AND SWORN to before me this 17 OCT 2018, 2018, affiant exhibiting to me his Passport No. P5257129A issued on Dec. 6, 2017 at Manila, Philippines.

Doc. No. 98;  
Page No. 21;  
Book No. V;  
Series of 2018.

**ROSE ANN JOY V. GONZALES**  
Appointment No. M-221  
Notary Public for Makati City  
Until December 31, 2019  
Liberty, Justice and the Rule of Law  
104 H.V. dela Costa Street, Makati City  
Roll No. 68583  
PTR No. 6619649/Makati City/01-05-2018  
IBP No. 020681/Isabela/01-03-2018

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## EXECUTIVE SUMMARY

*The following summary does not purport to be complete and is taken from and qualified in its entirety by the more detailed information including the Company's financial statements and notes relating thereto appearing elsewhere in this Prospectus. For a discussion of certain matters that should be considered in evaluating any investment in the Commercial Papers, see the section entitled "Risk Factors" of this Prospectus. Terms defined elsewhere in this Prospectus shall have the same meanings when used in this summary. Prospective investors should therefore read this Prospectus in its entirety.*

### COMPANY OVERVIEW

The Company is engaged in the business of trading refined petroleum products, lubricants and other chemical products, operation of oil depots and storage facilities and allied services. Its operations started in Southern Mindanao and soon expanded in the islands of Luzon and the Visayas. Its products and services are distributed and marketed under the *PHOENIX Fuels Life*<sup>TM</sup> trademark. With a market share of 7.1%<sup>1</sup> of the Philippine oil market as at June 30, 2018, the Company is one of the largest and the only independent oil company in the Philippines that is engaged in all aspects of the local downstream oil industry.

The Company was incorporated in the Philippines on May 8, 2002 under its original name "Oilink Mindanao Distribution, Inc." On January 11, 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to "Davao Oil Terminal Services Corp." On August 7, 2006, the SEC approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to "P-H-O-E-N-I-X Petroleum Philippines, Inc."

On July 11, 2007, the Company was listed on the PSE and became the first petroleum company to be publicly-listed after the enactment of Republic Act No. 8479 (the "**Oil Deregulation Law**"). The Oil Deregulation Law encourages petroleum companies to be listed in the PSE. The Company has a market capitalization of ₱17.18 billion as of June 30, 2018, based on Phoenix's common share closing price of ₱12.00 as of June 30, 2018, the last trading day of the said month.

The Company's operations are divided between trading, and terminalling and hauling services. Under trading, the Company offers its refined petroleum products and lubricants to retailers and industrial customers. The Company sells its products through its network of retail service stations and has established 545 stations as of June 30, 2018. The retail service stations are classified as Company Owned, Dealer Operated ("**CODO**"), which account for 52% of the stations, and Dealer Owned, Dealer Operated ("**DODO**"), which account for 48% of the stations. Its main areas of retail operations are in Luzon and Mindanao which accounts for 47% and 40%, respectively, of the stations established as of June 30, 2018, while its Visayas operations account for 13% of the network.

The Company's terminalling and hauling services involve leasing of storage space in its terminal depot, hauling and into-plane services (hauling of Jet A1 fuel to airports and refueling of aircraft) in seventeen (17) airports, including Davao, Cagayan de Oro, General Santos City, Cotabato City, Ozamis City, Pagadian City, Zamboanga City, Dumaguete, Bacolod, Kalibo, Iloilo, Caticlan, Tacloban, Cebu Mactan, Roxas City and San Jose, Mindoro. Since 2005, the Company has been providing all of Cebu Air, Inc.'s

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<sup>1</sup>in terms of the total market demand of petroleum products based on industry data from the DOE. See the section entitled "*Industry and Competitive Overview*" of this Prospectus for a more detailed discussion.

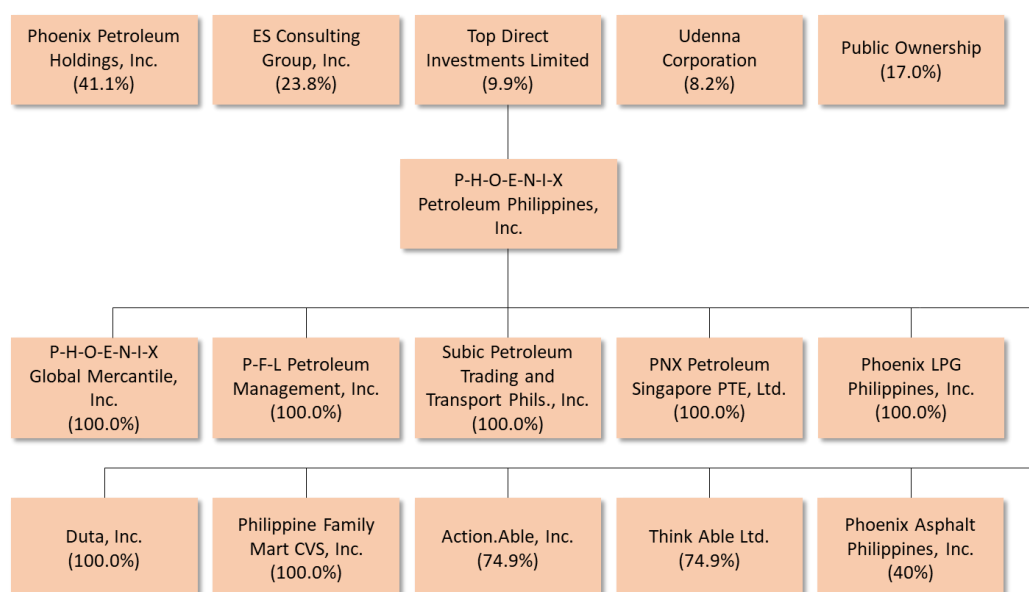
(“Cebu Pacific”) terminal, hauling and into-plane requirements for its Mindanao operations. Phoenix currently provides services to Cebu Pacific in a total of 17 domestic airports consisting of one in Luzon, eight in Visayas, and eight in Mindanao.

The Company presently has a nationwide network of depots and retail stations. Its industrial customers include air, land and sea transport companies and other industrial users.

Since its commercial operations in 2005, the Company managed to increase its market share from zero to 7.1% of the Philippine oil market as of June 30, 2018. Phoenix has achieved this on the back of strong compounded annual sales volume growth of approximately 38% since its public listing in 2007.

## CORPORATE STRUCTURE

The chart below sets forth the ownership structure of the common shares of the Company as of June 30, 2018:



Details on each company may be found in “Description of Business – Corporate Structure” part of this Prospectus.

## FIRST HALF 2018 RESULTS OF OPERATIONS

The Company posted its best first half yet as it grew income, revenue, and market share in the first six months of 2018. Net income after tax surged by 59% to ₱969.8 million in the first half compared to the same period last year. Revenues grew by 113% to ₱40.25 billion during the first half of 2018 from ₱18.89 billion in the same period in 2017. This was primarily driven by the 63% increase in total volume sold.

Sales volume from the core fuel business grew by 18% in the first half of 2018 from the same period in 2017. Retail volume increased by 8% as the Company continues to expand its network, having established 545 stations nationwide as of June 30, 2018. The company is also refurbishing the look of

its stations to a new and better design, and has launched new products and improved service. In February 2018, the company launched its upgraded fuels powered with Phoenix PULSE Technology. Available in all its fuel products, Phoenix PULSE Technology is a fuel additive with advanced cleaning and protection properties for enhanced power and acceleration.

Sales volume from core fuel commercial and industrial segment grew by 28% as the Company secured more key accounts in power, manufacturing, shipping, transportation, construction, and other industries.

The Company's new businesses in LPG, trading and supply, and convenience store retailing are also delivering value. PLPI grew its volume by 18% in the first half compared to the same period last year when it was operating as PEPI. The brand, Phoenix Super LPG, is expanding in Luzon as it strengthens its presence in Visayas and Mindanao.

PFM posted an average daily sales growth of 7% since it was acquired by the Company in January 2018, by focusing on improving in-store and supply chain efficiencies and better food offerings that cater to its target market. Family Mart is the country's third largest convenience store brand, a franchise of Japan's Family Mart, with 68 stores mostly in NCR as of June 30, 2018.

PNX SG, the Company's trading and supply office established in September 2017, sold 264 million liters of fuel to third parties. The office serves as springboard for regional expansion of the Company.

Total resources of the Company as of June 30, 2018 stood at ₱46.129 billion, a 3.7% growth compared to the ₱44.471 billion level as of December 31, 2017.

## **RECENT DEVELOPMENTS**

The following are some of the significant developments involving the Company since December 31, 2017:

- On June 5, 2018, the Company entered into an agreement with CNOOC Gas and Power Group Co. Ltd. to study, plan and develop an integrated liquified natural gas project in the Philippines.
- On May 25, 2018, the Company acquired 74.9% equity interest of AAI and 74.9% equity interest in TA.
- On June 16, 2018, the Company entered into a JV agreement with TIPCO Asphalt Public Company Ltd. and Mr. Carlito B. Castrillo for the setting-up and incorporation of a JV company which is primarily engaged in the operation, marketing and distribution of bitumen and bitumen-related products in the Philippines.
- On January 11, 2018, the Company acquired 100% equity ownership in PFM, a company is primarily engaged in the operation and sub-franchising of convenience stores under the "Family Mart" name and system, and currently operates 68 convenience store branches nationwide. PFM holds the exclusive area franchise agreement for the use of the name and system "Family Mart" in the Philippines, as granted by its main franchisor, FamilyMart Co. Ltd. The transaction was approved by the PCC on January 3, 2018.

## COMPETITIVE STRENGTHS

The Company's competitive strengths have made it the leading independent player and the 4<sup>th</sup> largest oil company in the Philippines<sup>2</sup>:

- Largest independent oil player with excellent brand recall
- Rapid and sustainable network expansion
- Strategic import terminal, depot and station locations
- Integrated supply chain and logistics infrastructure
- Seasoned management team of industry experts

## BUSINESS STRATEGY

The Company continues to expand in other areas by building on its existing business model and by improving the alignment of its frontline revenue units with the logistics and other support areas of the organization. The Company is cognizant of the need to enhance further its profit-oriented and cost-effective approach and maintains a highly responsive organization. Its strategy focuses on the following elements:

- Brand strengthening
- Continue strategic retail network expansion
- Expand its integrated supply network
- Focus on the direct importation of petroleum products
- Strengthen the jet fuel trading & service segment
- Pursue strategic synergistic acquisitions
- Building financial strength

## RISKS OF INVESTING

Before making an investment decision, prospective Commercial Paper Holders should carefully consider all of the information set forth in this Prospectus and, in particular, prospective Commercial Paper Holders should evaluate the risks associated with an investment in the Commercial Papers. See section entitled "*Risk Factors*" of this Prospectus for a more detailed discussion on the risk factors. These risks include:

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<sup>2</sup>As of June 30, 2018.

## **Risks Relating to the Company's Business and Operations**

### *Internal Factors*

1. The growth of the Company is dependent on the successful execution of its expansion plans;
2. The Company depends on experienced, skilled and qualified key personnel and senior management, and its business and growth prospects may be disrupted if their services are lost;
3. Any significant disruption in operations or casualty loss at the Company's storage and distribution facilities could affect its business and results of operations and result in potential liabilities;
4. The business requires significant capital expenditures and financing, which are subject to a number of risks and uncertainties, that may affect the leverage position and profitability of the company if it depends heavily on debt financing;
5. If the number or severity of claims for which the Company is insured increases, or if it is required to accrue or pay additional amounts because the cost of damages and claims prove to be more severe than its insurance coverage, the Company's financial condition and results of operations may be materially affected;
6. The Company's controlling shareholder may have interests that may not be the same as those of other shareholders;
7. The Company may fail to integrate acquired businesses properly, which could adversely affect the Company's results of operations and financial condition;
8. The Company's public float is below 20%; and
9. The Company from time to time considers business combination alternatives.

### *External Factors*

1. Volatility of the price of petroleum products may have a material adverse effect on the Company's business, results of operations and financial condition;
2. The Company's business, results of operations and financial condition may be affected by intense competition in the downstream oil industry;
3. Regulatory decisions and changes in the legal and regulatory environment could increase the Company's operating costs and affects its business, results of operations and financial condition;
4. The Company currently benefits from income tax holidays on the operation of certain depots. If the Company did not have the benefit of income tax holidays, its profitability will be affected, as it will have to pay income tax at the prevailing rates;
5. The Company may be affected by the Comprehensive Tax Reform Program;
6. The Company's exposure to costs and liabilities arising from compliance with safety, health, environmental and zoning laws and regulations may adversely affect its business, results of operations and financial condition;
7. The Company's business, financial condition and results of operations may be impacted by the fluctuations in the value of the Philippine Peso against the U.S. Dollar;
8. Existing and future claims against the Company and its subsidiaries, or directors or key management may pose as a reputational risk to the Company and its business;
9. The Company relies primarily on a small number of suppliers for a significant portion of its petroleum products;
10. Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the Company's business and prospects; and
11. Changes in applicable accounting standards may impact the Company's businesses, financial condition and results of operations.



**Risks Relating to the Philippines**

1. The Company's business and sales may be negatively affected by slow growth rates and economic instability globally and in the Philippines;
2. Political instability, acts of terrorism, military conflict, or changes in laws or government policies in the Philippines could destabilize the country and may have a negative effect on the Company;
3. The occurrence of natural or man-made catastrophes or major power outages may materially disrupt the Company's operations;
4. If foreign exchange controls were to be imposed, the Company's ability to access foreign currency to purchase petroleum, petroleum products, raw materials, equipment and other imported products, could be affected; and
5. Territorial and other disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

**Risks Relating to the Commercial Papers**

1. The Company cannot guarantee that there will be an active or liquid trading market for the Commercial Papers;
2. The Company may be unable to redeem the Commercial Papers;
3. The holder of the Commercial Papers may face a possible gain or incur a loss when they decide to sell the Commercial Papers;
4. The Commercial Papers may not be able to retain its credit rating; and
5. The Commercial Papers have no preference under Article 2244(14) of the Civil Code.

**PRINCIPAL OFFICE**

The Company's principal office is located at Stella Hizon Reyes Road, Bo. Pampanga, Lanang, Davao City, Philippines. The Company's telephone number at this address is +6382 235 8888. Information on the Company can be obtained on its website: [www.phoenixfuels.ph](http://www.phoenixfuels.ph).

## SUMMARY OF FINANCIAL INFORMATION

The following table sets forth financial and operating information of the Company. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Company, including the notes thereto, contained in this Prospectus and the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other information included herein. The summary financial data as of June 30, 2018 and 2017 and December 31, 2017, 2016 and 2015 were derived from the Company’s unaudited and audited consolidated financial statements, including the notes thereto, which are included in this Prospectus and from the Company’s 2017 annual report.

The consolidated financial statements as of December 31, 2017, 2016 and 2015 were audited by Punongbayan & Araullo. The consolidated financial information of the Company as of and for the six months ended June 30, 2018 and 2017 have not been audited by the Company’s independent auditor. As a result, the consolidated financial statements of the Company as of and for the six months ended June 30, 2018 and 2017 should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Company’s financial condition and results of operations. The Company’s financial information included in this Prospectus were prepared in accordance with the Philippine Financial Reporting Standards (“PFRS”). The summary financial information set out below does not purport to project the results of operations or financial condition of the Company for any future period or date. The Lead Underwriter and any of its affiliates, directors, officers and advisers disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of any financial information of the Company.

Income Statement Data	For the six months ended June 30		For the years ended December 31		
	2018	2017	2017	2016	2015
(in ₱ thousands, except Earnings per share (EPS))	Unaudited	Unaudited	Audited	Audited	Audited
Revenues	40,428,152	18,888,633	44,426,040	30,576,668	30,053,839
Cost and Expenses	38,547,613	17,867,448	42,320,540	28,463,738	27,993,758
Other Charges	609,471	326,689	111,379	850,652	968,369
Profit Before Tax	1,091,068	694,495	1,994,121	1,262,278	1,091,712
Tax Expense	121,271	84,415	202,272	169,803	185,844
Net Profit	969,798	610,080	1,791,849	1,092,475	905,869
Other Comprehensive Income	39,213	-	3,777	10,753	207,057
Total Comprehensive Income	1,009,011	610,080	1,795,626	1,103,227	1,112,926
Basic Earnings per share*	0.61	0.37	1.16	0.64	0.60
Diluted Earnings per share**	0.61	0.33	1.16	0.64	0.60

\*Based on weighted average number of outstanding common shares (in thousands): 1,436,881 as at June 30, 2018; 1,397,213 as at June 30, 2017; 1,372,488 as at December 31, 2017; 1,410,964 as at December 31, 2016; and 1,428,777 as at December 31, 2015.

\*\* Based on weighted average number of outstanding common and potential common shares (in thousands): 1,441,664 as at June 30, 2018; 1,401,009 as at June 30, 2017; 1,377,270 as at December 31, 2017; 1,414,736 as at December 31, 2016; and 1,428,777 as at December 31, 2015.

<b>Balance Sheet Data</b>	<b>As at June 30</b>		<b>As at December 31</b>	
<b>(in ₪ thousand)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>Unaudited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	2,892,201	1,831,542	2,338,781	1,631,788
Trade and other receivables – net	12,256,607	7,509,198	8,789,006	10,810,059
Inventories – net	6,625,963	12,969,947	2,998,780	2,638,615
Land held for sale	-	-	-	462,489
Due from related parties	248,091	518,005	1,506,998	12,261
Restricted deposits	51,935	51,282	50,925	70,972
Input value-added tax – net	988,014	1,773,091	731,736	774,236
Prepayments and other current assets	1,007,308	581,436	595,963	639,112
<b>Total Current Assets</b>	<b>24,070,121</b>	<b>25,234,501</b>	<b>17,012,189</b>	<b>17,039,532</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment – net	15,425,777	13,400,687	9,002,313	12,843,003
Intangible assets – net	293,508	274,931	275,037	72,384
Investment properties	1,114,430	1,114,780	-	390,210
Investment in Joint Venture	45,353	-	-	158,689
Goodwill – net	4,499,542	3,990,667	10,222	84,517
Deferred tax assets – net	263,418	231,866	46,192	0
Other non-current assets	316,494	223,467	192,084	338,273
<b>Total Non-current Assets</b>	<b>22,058,523</b>	<b>19,236,399</b>	<b>9,525,848</b>	<b>13,887,076</b>
<b>TOTAL ASSETS</b>	<b>46,128,644</b>	<b>44,470,900</b>	<b>26,538,038</b>	<b>30,926,608</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Interest-bearing loans and borrowings	17,888,779	16,796,874	11,262,859	11,740,698
Trade and other payables	2,746,480	3,832,669	3,232,653	3,260,473
Income tax payable	2,499	17,301	100,283	-
<b>Total Current Liabilities</b>	<b>20,637,759</b>	<b>20,646,844</b>	<b>14,595,795</b>	<b>15,001,171</b>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing loans and borrowings	12,103,942	11,374,560	1,921,565	5,243,301
Trade and other payables	-	-	-	317,811
Deferred tax liabilities – net	-	-	-	93,713
Other non-current liabilities – net	626,383	497,806	258,584	247,251
<b>Total Non-current Liabilities</b>	<b>12,730,325</b>	<b>11,872,366</b>	<b>2,180,149</b>	<b>5,902,075</b>
<b>TOTAL LIABILITIES</b>	<b>33,368,084</b>	<b>32,519,210</b>	<b>16,775,944</b>	<b>20,903,246</b>
<b>EQUITY</b>				
Capital stock	1,458,739	1,456,538	1,123,097	1,453,777
Additional paid-in capital	5,726,323	5,709,303	5,320,816	5,320,816
Revaluation reserves	(2,306)	(2,306)	(12,148)	559,295
Other reserves	(732,562)	(730,362)	(730,362)	(622,952)
Accumulated translation adjustment	33,148	(6,065)	-	-
Retained earnings	6,276,497	5,524,582	4,060,690	3,312,426

Balance Sheet Data	As at June 30	As at December 31		
(in ₱ thousand)	2018 Unaudited	2017 Audited	2016 Audited	2015 Audited
Minority Interest	720	-	-	-
<b>Total Equity</b>	12,760,560	11,951,690	9,762,094	10,023,362
<b>TOTAL LIABILITIES AND EQUITY</b>	46,128,644	44,470,900	26,538,038	30,926,608

The table below sets forth the comparative performance indicators of the Company and its subsidiaries:

	June 30, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Current Ratio <sup>1</sup>	1.17 : 1	1.22 : 1	1.17 : 1	1.14 : 1
Debt to Equity Ratio <sup>2</sup>	2.61 : 1	2.72 : 1	1.72 : 1	2.09 : 1
Net Book Value per Share <sup>3</sup>	8.86 : 1	6.60 : 1	5.08 : 1	6.89 : 1
Debt to Equity Interest-Bearing <sup>4</sup>	2.35 : 1	2.36 : 1	1.35 : 1	1.69 : 1
Return on Equity <sup>5</sup>	8.5%	16.5%	11.0%	10.6%
Earnings per Share <sup>6</sup>	0.61	1.16	0.64	0.60

<sup>1</sup> Total current assets / current liabilities

<sup>2</sup> Total liabilities / tangible net worth

<sup>3</sup> Total stockholder's equity (net of Preferred) / total number of shares issued and outstanding

<sup>4</sup> Interest Bearing Debt / total stockholder's equity (net of Preferred)

<sup>5</sup> Period or Year net income / average total stockholder's equity

<sup>6</sup> Period or Year Net income after tax / weighted average number of outstanding common shares

## OVERVIEW OF THE COMMERCIAL PAPERS PROGRAM

The following is a general summary of the terms of the Commercial Papers issued under the Commercial Papers Program. The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of a particular Commercial Paper Series, the applicable terms and conditions set forth [in the relevant Pricing Supplement]. This summary must be read as an introduction to this Prospectus and any decision to invest in any particular Commercial Paper Series should be based on a consideration of the Prospectus as a whole, including any information incorporated by reference.

Phoenix is offering Commercial Papers with an aggregate principal amount of up to ₱10,000,000,000. The Commercial Papers may be issued and reissued, in each case, in whole or in part and in one or more series, within a three (3) year period (or such longer period as may be prescribed by the SEC) commencing from the date of effectivity of the Registration Statement in accordance with Rule 12.1.2.5 of the SRC IRR (the “**Commercial Papers Program**”); provided that notwithstanding any issuance or reissuance, the aggregate outstanding Commercial Papers shall not exceed ₱10,000,000,000 at any given time. The following sections outline the description of the Commercial Papers Program followed by specific indicative terms and conditions applicable to a particular Commercial Paper Series.

Issuer:	P-H-O-E-N-I-X Petroleum Philippines, Inc.
Sole Issue Manager:	PNB Capital and Investment Corporation
Selling Agents:	[•]
Description:	Up to Ten Billion Pesos (₱10,000,000,000) Commercial Papers Program
Availability:	The Commercial Papers under the Commercial Papers Program may be issued and reissued, in each case, in whole or in part and in one or more series, within three (3) years from the date of the SEC order rendering the Registration Statement effective (the “RS Effectivity Date”) and a corresponding permit to offer securities for sale covering the Commercial Papers Program.
Method of Issue:	<p>Within three (3) years following the RS Effectivity Date, the Company may, in consultation with the Sole Issue Manager, issue or reissue, in whole or in part, the Commercial Papers covered by such Registration Statement, in one or more series under Rule 12.1.2.5 of the Implementing Rules and Regulations of the Securities Regulation Code (“<b>SRC IRR</b>”) provided that the outstanding amount of the Commercial Papers at any time shall not exceed Ten Billion Pesos (₱10,000,000,000).</p> <p>The specific terms of each series (which, save in respect of the issue date, issue price, discount rate, and principal amount of such series, will be identical to the terms of other series) will be set forth in the relevant [Pricing Supplement].</p>



Manner of Distribution:	Public offering
Issue Price:	The Commercial Papers will be issued at a discount to face value.
Issue Date:	In one or more dates to be set by the Issuer in consultation with the Sole Issue Manager on a when and as needed basis. For the avoidance of doubt, an Issue Date shall at any time be any date which is within three (3) years following the RS Effectivity Date.
Maturity Date:	Up to three hundred sixty (360) days from Issue Date.
Discount Rate:	Fixed discount rate of [•]% per annum, to be set by the Issuer in consultation with the Sole Issue Manager.
Reissuance Procedure:	Issuer reserves the right during the validity of the Registration Statement for the Commercial Papers to (a) issue additional Commercial Papers; or (b) reissue (i) Commercial Papers that mature and are repaid on the relevant Maturity Date; or (ii) Commercial Papers that are repurchased by the Issuer on the open market (PDEx) prior to the relevant Maturity Date, <i>provided that</i> , at any time during the three (3)-year validity of the Registration Statement, there will be no more than ₱10,000,000,000 in aggregate principal amount of Commercial Papers outstanding and none of the Commercial Papers will have a maturity date of 365 days or more; <i>provided further</i> , that any and all relevant taxes, including, but not limited to, documentary stamp tax on the indebtedness, shall be paid by the Issuer for each issuance and reissuance of the Commercial Papers.
Discount Rate Computation:	The interest/discount rate will be calculated on a true-discount basis.
Final Redemption:	<p>The Commercial Papers will be repaid in full (or 100% of face value) on the relevant Maturity Date.</p> <p>If such principal repayment is due on a day that is not a Banking Day, the principal repayment date shall be made on the immediately succeeding Banking Day. No additional interest will be paid in such case.</p>
Redemption for Taxation Reasons:	If payments under the Commercial Papers become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the relevant Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Commercial Papers in whole, but not in part, (having given not more than sixty (60) nor less than thirty (30) days' prior written notice to the Trustee) at par or 100% face value.

Form of Commercial Papers:	The Commercial Papers shall be issued scripless and shall be maintained in electronic form with the Registrar to be appointed for the purpose.
Denomination:	Minimum face value and increments shall be determined for each series.
Status:	The Commercial Papers shall constitute the direct, unconditional and unsecured Peso-denominated obligations of the Issuer and will rank <i>pari passu</i> and ratably without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer, other than obligations mandatorily preferred by law.
Negative Pledge:	The Commercial Papers shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens.
Taxation:	<p>Except: (i) tax on a Commercial Paper Holder's interest income on the Commercial Papers which is required to be withheld by the Issuer, and (ii) capital gains tax/income tax, documentary stamp tax and other taxes on the transfer of Commercial Papers (whether by assignment or donation), if any and as applicable, which are for the account of the Commercial Paper Holder, all payments of principal and interest will be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines or any political subdivision, agency or instrumentality thereof, including, but not limited to, issue, registration, or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided, however, that the Issuer shall not be liable for, and will not gross-up the payments of interest on the principal amount of the Commercial Papers so as to cover any final withholding tax applicable on interest earned on the Commercial Papers prescribed under the National Internal Revenue Code of 1997, as amended, and its implementing rules and regulations.</p> <p>Documentary stamp tax on the original issue of the Commercial Papers and the documentation, if any, shall be for the Issuer's account.</p> <p>A Commercial Paper Holder who is exempt from or is not subject to final withholding tax on interest income may claim such exemption by submitting to the Sole Issue Manager, together with its Application to Purchase: -</p> <ul style="list-style-type: none"> <li>▪ Certified true copy of the (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time) current and valid original tax</li> </ul>

exemption certificate, ruling or opinion issued by the BIR confirming the exemption or preferential rate;

- A duly notarized undertaking (in the prescribed form and substance by Phoenix) declaring and warranting that the same Commercial Paper Holder named in the tax exemption certificate described in (a) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify Phoenix and the Registrar of any suspension or revocation of its tax exemption certificates or preferential rate entitlement and agreeing to indemnify and hold Phoenix, the Registrar and the Paying Agent free and harmless against any claims, actions, suits and liabilities resulting from the non-withholding of the required tax; and
- Such other documentary requirements as may be required by Phoenix, the Registrar or the Paying Agent under the applicable regulations of the relevant taxing or other authorities, which for purposes of claiming tax treaty withholding rate benefits shall include a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form prescribed in Revenue Memorandum Order No. 8-17, evidence of the applicability of a tax treaty provision, a consularized proof of the Commercial Paper Holder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Commercial Paper Holder is not doing business in the Philippines; provided further that, upon submission of reasonable evidence of exemption or preferential rate entitlement of the Applicant to the Registrar, all sums payable by Phoenix to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges from and to the extent which the Commercial Paper Holder has adequately evidenced exemption.

The tax treatment of a Commercial Paper Holder may vary depending upon such person's particular situation and certain holders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Commercial Paper Holder. Commercial Paper Holders are advised to consult their own tax advisers on the ownership and disposition of the Commercial Papers, including the applicability and effect of any state, local or foreign tax laws.

See the sections entitled "*Philippine Taxation*" and "*Description of Commercial Papers – Payment of Additional Amounts; Taxation*" of this Prospectus for a more detailed discussion on the tax consequences of the acquisition, ownership and disposition (e.g. secondary transfer) of the Commercial Papers.

Purchase and Cancellation:	The Issuer may at any time purchase any of the Commercial Papers in the open market or by tender or by contract at market price, without any obligation to make pro-rata purchase (and the Commercial Paper Holders shall not be obliged to sell) from all Commercial Paper Holders. Any Commercial Papers so purchased shall be redeemed and cancelled, and may be reissued as part of any subsequent series of the Commercial Papers Program. Upon listing of each Commercial Paper Series on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.
Issuer Rating:	The Issuer has a rating of PRS [●] as assigned by PhilRatings.
Registrar and Paying Agent:	[Philippine Depository & Trust Corp.]
Trustee:	PNB Trust Banking Group
Listing:	The Issuer intends to list each Commercial Paper Series in the PDEX on Issue Date.
Governing Law:	Philippine Law

## SUMMARY OF THE OFFER

The Offer relates to the initial series of the Commercial Papers Program with a principal amount of up to Seven Billion Pesos (₱7,000,000,000). The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus for the Commercial Paper Series A. The Commercial Paper Series A is part of the Issuer's Commercial Papers Program (see the section entitled *"Overview of the Commercial Papers Program"* of this Prospectus).

### INITIAL SERIES OF THE COMMERCIAL PAPERS PROGRAM

Issuer:	P-H-O-E-N-I-X Petroleum Philippines, Inc.
Sole Issue Manager, Lead Underwriter and Sole Bookrunner:	PNB Capital and Investment Corporation
Co-Lead Manager:	[•]
Issue:	The initial series of the Commercial Papers Program (the <b>"Commercial Paper Series A"</b> or <b>"Offered CPs"</b> ), which are comprised of the following subseries: CP Series A-1 and CP Series A-2
Issue Amount:	Up to Seven Billion Pesos (₱7,000,000,000)
Purpose:	Proceeds from the Offer will be used for working capital requirements and/or to refinance existing short-term loans of the Issuer (see the section entitled <i>"Use of Proceeds"</i> of this Prospectus).
Offer Period:	The Offer shall commence at 10:00 a.m. on [•], 2018 and end at 5:00 p.m. on [•], 2018, or on such other date as the Issuer and the Issue Manager, Lead Underwriter and Sole Bookrunner may agree upon.
Issue Date:	[•], 2018 or the immediately succeeding Business Day, if such Issue Date is not a Business Day, or such other date as may be agreed upon by the Issuer and the Sole Issue Manager, Lead Underwriter and Sole Bookrunner.
Maturity Date:	<p>CP Series A-1: One hundred eighty (180) days from Issue Date or [•], 2019; provided that, in the event that such Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be the immediately succeeding Business Date.</p> <p>CP Series A-2: Three hundred sixty (360) days from Issue Date or [•], 2019; provided that, in the event that such Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be the immediately succeeding Business Date.</p>
Discount Rate:	<p>CP Series A-1: Fixed discount rate of [•]% per annum</p> <p>CP Series A-2: Fixed discount rate of [•]% per annum</p>



Denomination: Minimum denominations of [~~₱~~1,000,000.00] and in increments of [~~₱~~100,000.00] thereafter.

Issuer Rating: The Issuer has a rating of PRS [•] as assigned by PhilRatings.

## **RISK FACTORS**

### **GENERAL RISK WARNING**

The price of securities can and does fluctuate; any individual security may experience upward or downward movements; and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There is an extra risk of losing money when securities are issued by smaller companies. There may be a big difference between the buying price and the selling price of these securities. Investors deal in a range of investments, each of which may carry a different level of risk.

### **PRUDENCE REQUIRED**

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Commercial Papers and the Company from the SEC, Exchange and PDEX.

### **PROFESSIONAL ADVICE**

An investor should seek professional advice if he/it is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high-risk securities.

### **RISK FACTORS**

An investment in the Commercial Papers described in this Prospectus involves a certain degree of risk. This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company adopts what it considers conservative financial and operational controls and policies to manage its business risks. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of the Company, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for ease of reference. Additional considerations and uncertainties not presently known to the Company or which the Company currently deems immaterial may also have an adverse effect on an investment in the Commercial Papers.

Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Commercial Papers. The Company's business, financial condition and results of operations could be materially affected by any of these risk factors.

## RISKS RELATING TO THE COMPANY AND ITS SUBSIDIARIES

*The following discussion is not intended to be a comprehensive description of all applicable risk considerations, and is not in any way meant to disclose all risk considerations or other significant aspects of investment in the Commercial Papers. Investors are encouraged to make their own independent legal, financial, and business evaluation of the Company.*

*The means by which the Company intends to address the risk factors discussed herein are principally presented under the captions "Description of Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry and Competitive Overview," and "Corporate Governance" of this Prospectus.*

### Internal Factors

#### **1) *The growth of the Company is dependent on the successful execution of its expansion plans.***

Proper execution and successful implementation of the Company's expansion plans is critical to maintain the growth of the Company going forward. These plans are based on certain assumptions about oil demand, oil prices, competition, financing cost and acquiring the necessary timely regulatory approvals, among others. The Company cannot and does not represent with absolute certainty that these assumptions would materialize as predicted. In the event that these prove to be incorrect, the Company's future financial performance may be negatively affected.

To mitigate this risk, the Company continually reviews its network expansion program by identifying and anticipating target locations, dealers and operating and logistical requirements up to a year in advance. This enables the Company to mobilize financial and operating resources in a timely manner and allocate resources effectively to support the Company's expansion plans.

#### **2) *The Company depends on experienced, skilled and qualified key personnel and senior management, and its business and growth prospects may be disrupted if their services are lost.***

Certain experienced, skilled and qualified key executives and employees are important for the efficient management and operation of the Company's business. Should several of these key personnel be unable or unwilling to continue their present roles, the Company may face difficulties in looking for replacements and the business and operations may be disrupted. In this case, costs, including costs related to contract labor, productivity, and safety may rise. Failure to hire and train replacement employees, including the transfer of significant internal historical knowledge and expertise to the replacements or the limited availability and rising cost of contract labor may adversely affect the Company's ability to manage and operate and its business. The loss of a significant number of qualified personnel could adversely affect the Company's ability to compete in its industry which could consequently result to a potential material effect on the financial condition and operating results of the Company.

To mitigate this risk, the Company ensures that its compensation and benefit packages for its management, officers, staff and rank-and-file are competitive and within industry standards. Promotions and pay raises are merit-based and performance appraisals are conducted regularly. Key personnel are also regularly sent to training programs locally and abroad to ensure that their knowledge and skills are continually updated. The Company has also established a Company-wide succession plan.

**3) *Any significant disruption in operations or casualty loss at the Company's storage and distribution facilities could affect its business and results of operations and result in potential liabilities.***

The Company's operation of its storage and terminal facilities and retail service stations could be affected by several factors, including, but not limited to, equipment failure and breakdown, accidents, power interruption, human error, natural disasters, and other unforeseen incidents and issues. These disruptions could result in product run-outs, facility shutdown, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company has purchased insurance policies covering a majority of foreseeable risks such as property damage, marine cargo, third party liability, personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption to mitigate the potential impact of these risks. However, these policies do not cover all potential losses as insurance may not be available for all such risks or on commercially reasonable terms. Operational disruptions may occur going forward, and as such, insurance may not be able to adequately cover the entire scope or extent of the losses or other financial impact on the Company.

The Company aims to mitigate this risk by following best practices to prevent the occurrence of or minimize the impact of accidents or other untoward incidents. These include measures to isolate the physical effects of any incidents (for example, the dispersed locations of its storage depots and alternative storage arrangements), minimize their financial impact on the Company (by ensuring that insurance coverage is adequate) and prevent their occurrence (for example, by ensuring that maintenance and safety procedures follow International Organization for Standardization ("ISO") standards and maintaining an adequate security force).

**4) *The business requires significant capital expenditures and financing, which are subject to a number of risks and uncertainties, that may affect the leverage position and profitability of the Company if it depends heavily on debt financing.***

The Company's business is capital intensive, particularly the importation, storage and distribution of petroleum products require substantial capital expenditures. The Company's financial condition, sales, net income and cash flows, will depend on its capital expenditures for, among others, the construction of storage and wholesale distribution facilities and equipment, the construction of retail gas stations and the acquisition of tanker trucks. Its business strategies involve the construction of new terminal facilities and the expansion of its service station networks. If the Company fails to complete its capital expenditure projects on time or at all or within the allotted budget, or to operate such facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits or to capture additional market share as planned, and its business, results of operations and financial condition could be affected.

The Company has incurred additional indebtedness to support its capital expenditure program. The Company's ability to follow this program and meet its debt obligations will partly depend on the ability of the business to generate cash flows from its operations and obtain additional financing. There can be no assurance that the Company will be able to generate sufficient cash flows from its operations or obtain adequate financing for its capital expenditure projects, or to meet its debt servicing obligations, on acceptable terms or at all. The inability of the Company to meet its capital expenditure program whether through unsuccessful implementation or

insufficient funding could affect its business, financial condition and results of operations.

Financing risk is mitigated as the Company follows a conservative financing strategy to optimize its leverage and ensure that the costs of financing are well within the Company's ability to meet these costs.

- 5) *If the number or severity of claims for which the Company is insured increases, or if it is required to accrue or pay additional amounts because the cost of damages and claims prove to be more severe than its insurance coverage, the Company's financial condition and results of operations may be materially affected.***

The Company's terminalling, hauling and marketing and distribution of refined petroleum products in the Philippines are subject to inherent risks, such as equipment defects, malfunctions, failures or misuse, which could cause environmental pollution, leaks or spills, personal injury or loss of life, as well as damage to, and destruction of the environment, which could result in liabilities that exceed the Company's insurance coverage and have a material adverse effect on its financial condition and results of operations. The Company could also be adversely affected by business interruptions caused by war, terrorist activities, mechanical failure, human error, political action, labor strikes, fire and other circumstances or events.

The Company has insurance and reinsurance policies that cover property damage, marine cargo, third party liability, and comprehensive general liability to mitigate the potential impact of these risks. However, these policies do not cover all potential losses, and insurance may not be available for all risks or on commercially reasonable terms. The Company estimates the liabilities associated with the risks retained by it in part by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. A number of external factors affect their uncertainty and variability including, but not limited to, future inflation rates, discount rates, litigation trends, legal interpretation and actual claim settlement patterns. If the number or severity of claims for which the Company is insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its original assessment, the Company's financial condition, results of operations and cash flows may be materially affected.

To mitigate this risk, the Company continually reviews and updates its insurance policies so that it is reasonably protected from foreseeable events and risks. Insurance coverage is acquired through competitive bidding to ensure that the Company's premium costs are reasonable and at par with industry standards.

- 6) *The Company's controlling shareholder may have interests that may not be the same as those of other shareholders.***

UC, directly or indirectly with PPHI and UMRC, holds 50.1% of the Company's outstanding common equity as of June 30, 2018. Neither UC, PPHI nor UMRC is obligated to provide the Company with financial support or to exercise its rights as a shareholder in the Company's best interests or in the best interests of the Company's other shareholders. Should there be a conflict between the interests of UC, PPHI or UMRC and the interests of the Company, the Company may be affected by the actions of UC.

The Company has an operating lease agreement with UC for the use of various properties for its operations and for office space. Furthermore, the Company regularly charters the use of marine tankers from its affiliate, CSC, for the hauling of its fuel products from suppliers' terminals and

from its own depots to Company depots and to its customers. The Company also avails of the freight forwarding services of another affiliate, F2 Logistics, Inc., for the delivery of goods to customers and for internal movement of non-commercial cargo. While the Company believes that the terms of these transactions were negotiated on an arms-length basis, there is no assurance that the Company cannot avail of better terms if it contracted with parties other than its affiliates.

To mitigate this risk, the Company follows good corporate governance standards in dealing with its shareholders and other related parties. These standards include, but are not necessarily limited to, “arms-length” practices in all commercial dealings with related interests and transparency and full disclosure in all such dealings.

**7) *The Company may fail to integrate acquired businesses properly, which could adversely affect the Company’s results of operations and financial condition.***

From time to time, the Company considers selective opportunities to expand both domestically and internationally through strategic acquisitions of businesses geared towards the creation of operation synergies. However, there can be no assurance that the Company will be able to integrate its acquisitions fully in line with its strategy. Any failure to do so could have a material adverse effect on the business, results of operations and financial conditions of the Company.

To mitigate this risk, the Company pursues synergistic acquisitions that are aligned to support and grow its core business. For example, the Company’s integration of the Family Mart convenience stores into its service stations is part of its refurbishment initiative with the goal of creating a convenient one-stop service experience for its customers, at the same time, Family Mart can still operate on a standalone basis due to its being an established brand. The venture into the digital payments platform through Action.Able allows the Company to harness new channels of retail for its existing products while adding offerings to the existing network of Phoenix Petroleum retail stations and Family Mart branches as customers can also process payments through these alongside their traditional fuel and retail store purchases. Phoenix Asphalt Philippines sells bitumen which is a product of the oil refining process and is poised to support the infrastructure growth of the country by providing high quality construction material.

**8) *The Company’s public float is below 20%.***

The SEC has proposed to increase the minimum amount of public ownership in listed corporations from 10% to 20%. Corporations that are already listed must increase their public float to 15% by the end of 2018 and 20% by the end of 2020. As of September 30, 2018, only 13.7% of the Company’s shares are held by the public. Failure to comply could result in suspension or revocation of the corporation’s registration statement. Further, companies which become non-compliant with the minimum public ownership requirement will be suspended from trading on the PSE for a period of not more than six months, after which it shall automatically be delisted if it remains non-compliant after the lapse of the suspension period. Further, if a listed company does not comply with the minimum public ownership requirements then the shares will lose their preferential tax treatment. A sale of listed shares that meet this requirement are subject to a stock transaction tax amounting to only 6/10 of 1% of the gross selling price of the shares. On the other hand, shares that are not traded through an exchange are subject to a final tax of 15% of net capital gains, in addition to documentary stamp tax.

## **9) *The Company from time to time considers business combination alternatives***

Although the Company's loan covenants contain certain restrictions on business combinations, the Company will be able to engage in certain types of combinations. Business combinations involve financial and operational risks and could result in significant changes to the Company's operations, management and financial condition. These changes could adversely affect the Company's ability to fulfill its obligations under the Securities and reduce the value of the Securities.

Republic Act No. 10667, otherwise known as the "Philippine Competition Act" ("**PCA**") authorizes the Philippine Competition Commission ("**PCC**") to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its Implementing Rules and Regulations, as amended, and the Rules on Merger Procedure (collectively "**Merger Rules**") provides for mandatory notification to the PCC of any merger or acquisition within thirty (30) days of signing any definitive agreement relating to the transaction, where the value of such transaction exceeds Two Billion Pesos (₱2,000,000,000.00), and where the size of the ultimate parent entity of either party exceeds Five Billion Pesos (₱5,000,000,000.00). The parties may not consummate the transaction prior to receiving PCC approval or the lapse of the period stated in the Merger Rules. A merger or acquisition that meets the thresholds under the Merger Rules but was not notified to the PCC, or notified but consummated, in whole or in part, prior to the expiration of the waiting period, is considered void and will subject the parties, and will subject the parties to a fine between one percent (1.00%) to five percent (5.00%) of the value of the transaction.

Given the usual volume of the Company's transactions, mergers or acquisitions undertaken by the Company would likely meet the notification threshold under the PCA and its Implementing Rules and Regulations ("**IRR**"). The Company will comply with the requirements of the PCA and its IRR.

### **External Factors**

#### **1) *Volatility of the price of petroleum products may have a material adverse effect on the Company's business, results of operations and financial condition.***

The Company's financial results are primarily affected by the relationship, or margin, between the prices of its petroleum products and the prices for the crude oil which is the main raw material for the Company's products. The difference between the price and cost of its petroleum products accounts for almost 99% of the Company's total cost of goods sold. A number of domestic and international factors influence the price of petroleum products, including, but not limited to, the changes in global supply and demand for crude oil, economic conditions, conflicts or acts of terrorism, weather conditions, and domestic and foreign governmental regulation as well as other factors over which the Company has no control.

International crude oil prices have been volatile and are likely to continue being volatile going forward. In the first half of 2018, international crude oil prices recorded steady increases as global crude inventories continued to tighten gradually. Brent spot crude oil ended at US\$77/barrel in June 2018, representing a US\$11/barrel or 17% increase over the US\$66/barrel logged in December 2017. Mean of Platts Singapore ("**MOPS**") followed the increase, thereby affecting local petroleum prices. There were inconsistencies on demand and supply mismatch worldwide, but fluctuations in prices were less pronounced compared to the prior year. There is no clear sign and/or assurance that prices will remain stable over the near- and medium-term.

The Company holds between thirty (30) to forty (40) days of inventory and uses the average method to account for its inventory. Should global fuel prices suddenly drop significantly, the Company may be constrained to sell its petroleum products at a price below acquisition cost of its existing inventory. In a period of rising crude oil prices, social and competitive concerns, and government intervention, the Company may be further constrained to keep current selling prices resulting in its inability to pass on to the consumers the price increases in a timely manner.

The Government has historically intervened to restrict price increases for petroleum products from time to time, such as when a state of national calamity was declared by former President Gloria Macapagal-Arroyo after typhoons “Ondoy” and “Pepeng” left a trail of disaster. In 2013, during the declaration of a state of calamity brought about by the monsoon rains in Luzon and the earthquake in Bohol, Cebu and neighboring places, the Department of Trade and Industry issued a price freeze order on basic commodities including fuel. Another declaration of a state of national calamity or any act of the government may result in the Company being unable to pass on price increases effectively, which could affect profitability for the period of effectivity of such order. Such inability to pass on price increases may result to an adverse effect on the Company’s business, results of operations and financial condition. In addition, even if the Company was able to pass on increases in the price of crude oil to its customers, demand for the Company’s products may also be affected as a result of price increases.

A sharp rise in oil prices will require higher working capital and may force the Company to acquire higher financing costs. A material adverse effect on the Company’s financial condition and results of operations may follow should the Company face challenges in securing short-term financing for working capital or unfavorable pricing terms.

To mitigate this risk, the Company closely monitors the prices of fuel in the international and domestic markets. Following industry practice, prices for the upcoming week are set based on the world market price of fuel of the immediately preceding week. This enables the Company to anticipate any significant price movement and plan out contingencies to hasten the disposition of its existing inventory as necessary to various distributors and wholesalers.

**2) *The Company’s business, results of operations and financial condition may be affected by intense competition in the downstream oil industry.***

The Company faces intense multinational, national, regional and local competition in the sale of refined petroleum products and other related products in the Philippines. Competition is driven and dictated primarily by the price, as oil is one of the basic commodities. Differences in product specifications, and other overhead costs such as transportation, distribution and marketing costs, account for the price differentials amongst industry players. Some competitors, notably Petron, Shell and Chevron, have significantly greater financial and operating resources, and access to capital than the Company, and could arguably dictate domestic marketing and selling conditions to the detriment of the Company.

As competition is mainly driven by price, the Company’s business, operational and financial condition may be materially affected if it is unable to compete effectively against other players, which will be primarily driven by its ability to manage overhead costs, streamline transportation and distribution costs, and maximize utilization of its assets and operations and effectively hedge against fluctuations in oil prices.

Smuggling and illegal trading activities of petroleum products have likewise affected the domestic petroleum market. These activities have translated to lower sales price and volumes for legitimate



market players in the domestic market. The Company's financial condition and results of operations may be affected if the Government is unable to properly enforce and regulate the domestic oil market.

Competition risk is primarily mitigated by the Company continually strengthening and expanding its distribution network to improve its presence in both growing and high potential markets. The Company continues to invest in building brand equity to ensure that it is consistently recognized and recalled by its target market and improving customer service to a level at par with or superior to its competitors.

**3) *Regulatory decisions and changes in the legal and regulatory environment could increase the Company's operating costs and affects its business, results of operations and financial condition.***

Even though the local downstream oil industry is a deregulated industry, the Government has historically intervened to limit and restrict increases in the prices of petroleum products. On October 2, 2009, a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng" was called by former President Gloria Macapagal-Arroyo. Executive Order No. 839 was issued which called for the prices of petroleum products in Luzon to be kept at October 15, 2009 levels effective October 23, 2009. As a result of the Executive Order, prices of oil products were kept at said levels by the Company, affecting its profitability in Luzon for the period that the executive order was in effect. On November 16, 2009, the price freeze was lifted. In recent times, there have been similar price freezes in some areas in Visayas during periods of calamities. There is no assurance that the Government will not invoke similar measures or reinstate price regulation in the future, which may affect the Company's results of operations.

The Company's operations are subject to various taxes, duties and tariffs. The oil industry in the Philippines has experienced some key changes in its tax and duty structure. Import duties for crude oil and petroleum products were increased in January 1, 2005 from 3% to 5% which was then rolled back to 3%. In 2006, an additional 12% VAT was imposed by the Government on the sale or importation of petroleum products. As of July 4, 2010, import duties on crude oil and petroleum products were lifted. The recent imposition of Republic Act No. 10963 (the "TRAIN Law") increased the excise taxes imposed on petroleum products. Such taxes, duties and tariffs may or may not change going forward, and this could result to a material adverse effect on the Company's business, financial condition and results of operations.

To mitigate this risk, the Company's corporate affairs department is dedicated to monitoring compliance with regulations, as well as anticipating any new regulations that may be implemented by the authorities. This ensures that any additional costs resulting from changes in the legal and regulatory environment can be anticipated and prepared for by the Company.

**4) *The Company currently benefits from income tax holidays on the operation of certain depots. If the Company did not have the benefit of income tax holidays, its profitability will be affected, as it will have to pay income tax at the prevailing rates.***

Under its registration with the Board of Investments of the Philippines ("BOI"), the Company enjoys certain benefits, including an income tax holiday on the operations of the Davao Extension, the Calaca (Batangas) and the Zamboanga depots. In addition, the Company received approval in 2012 for BOI registration with corresponding income tax holidays for its Villanueva and Bacolod depots, which expired in 2017. New income tax holidays for Villanueva expansion, Tayud and Calapan depots were granted in 2017, which run for a period of five (5) years from the commencement of operations of each depot. Upon expiration of a tax holiday, the Company's

income from a depot will be subject to prevailing income tax rates. In addition, if the Company fails to meet certain conditions imposed by the BOI, it may lose its right to the income tax holiday. In such an event, the Company may not be able to continue to avail of the benefits under the income tax holiday. The loss of the income tax holiday would affect the Company's profitability as it may have to pay income tax at prevailing rates. In addition, there is no guarantee that the Company will be able to secure similar income tax holidays for any new depots that it may establish in the future or for the statutes granting said income tax holidays to be superseded or amended. For example, the Company's registration as a new industry participant with new investment in storage, marketing and distribution of petroleum products (with Certificate of Registration No. 2010-184) provides that it is entitled to an income tax holiday until 15 November 2010. After the lapse of the income tax holiday, the Company became liable for the regular corporate income tax. Any such inability by the Company to enjoy income tax holiday benefits may have a material effect on its business prospects, financial condition and results of operations. The Company continuously monitors its compliance with the requirements and conditions imposed by the BOI to mitigate this risk.

**5) *The Company may be affected by the Comprehensive Tax Reform Program***

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years.

On December 19, 2017, the Tax Reform for Acceleration and Inclusion or Republic Act No. 10963 has been signed into law and took effect on January 1, 2018. The increase in excise tax rates on petroleum under the TRAIN Law will significantly increase the excise taxes and value-added tax payable by the Company on its importation of petroleum products. For the period covering 2018 to 2020, there shall be a scheduled increase in the excise tax on fuel.

While the TRAIN's first package of the Comprehensive Tax Reform Program ("**CTRP**") of the Duterte administration brought about extensive changes to individual income taxation, it did not include changes in corporate income taxation. This is, instead, expected to be addressed in the second package of the CTRP, which was submitted to Congress on January 16, 2018. The second package reportedly aims to lower corporate income taxes while reducing fiscal incentives for corporations, such as income tax holidays, special rates, and custom duty exemptions. If passed into law, the fiscal incentives enjoyed by the Company may be affected.

There can be no assurance that any future tax changes in the Philippines would not have a material and adverse effect on the Company's business, financial condition, and results of operation.

**6) *The Company's exposure to costs and liabilities arising from compliance with safety, health, environmental and zoning laws and regulations may adversely affect its business, results of operations and financial condition.***

The operation of the Company's business is subject to a number of national and local laws and regulations, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, storage, handling, discharge and disposal of waste, location of storage facilities, and other aspects of the operations of the Company's business. Financial penalties, administrative and/or legal proceedings against the Company, or revocation or suspension of the Company's licenses or operation of its facilities may arise should the Company fail to comply with relevant laws and regulations.

The Company has incurred and expects to continue to incur operating costs to comply with such

laws and regulations. In addition, the Company has made and expects to continue to make capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations.

Safety, health, environmental and zoning laws and regulations in the Philippines are becoming more and more stringent over the years. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, or increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Company being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities.

In addition, if the measures implemented by the Company to comply with applicable laws, regulations and standards are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose the Company to potential liabilities, including administrative penalties. If the Company fails to meet safety, health and environmental requirements, it may be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the Company and damage to its reputation, as well as orders that could limit or affect its operations. There is no assurance that the Company will not become involved in future litigation or other proceedings relating to safety, health and environmental matters. Litigation or other proceedings are inherently unpredictable and may be time-consuming and disruptive to the Company's business and operations, regardless of the merits of the claims. There is no assurance that the Company will not be held responsible in any such future litigation or other proceedings, the costs of which could be material. Environmental compliance and remediation costs at sites on which the Company's facilities are located or other locations and related litigation and other proceedings could materially and adversely affect the Company's financial condition and results of operations.

To mitigate this risk, the Company keeps itself updated on government policies and regulations pertaining to the oil industry. Through its corporate affairs department, the Company maintains lines of communication with regulatory agencies to allow the Company to identify potential regulatory risks and proactively respond to these risks.

**7) *The Company's business, financial condition and results of operations may be impacted by the fluctuations in the value of the Philippine Peso against the U.S. Dollar.***

The Company's revenues are denominated in Philippine Pesos (Pesos) while the bulk of its expenses, notably the cost of its imported petroleum products, is U.S. Dollar-denominated. The Company's reporting currency in its financial statements is in Pesos. In 2017, 95% of the Company's revenues were denominated in Pesos, while 6.0% of its cost of goods sold were denominated in U.S. Dollars. Changes in the U.S. Dollar-Peso exchange rate may affect the financial condition of the Company. Should the Peso depreciate, this would translate to higher foreign currency denominated costs and effectively affecting the Company's financial conditions. There can be no assurance that the Company could increase its Peso-denominated product prices to offset increases in its cost of goods sold or other costs resulting from any depreciation of the Peso. There can be no assurance that the value of the Peso will not decline or continue to fluctuate significantly against the U.S. dollar and any significant future depreciation of the Peso could have a material adverse effect on the Company's margins, results of operations and financial condition.

To mitigate this risk, the Company limits its exposure to foreign currency denominated liabilities.

The risk posed by foreign exchange fluctuations in the cost of its imported petroleum products is generally mitigated by the Company's ability to pass on any such additional costs by way of adjustments to its selling prices.

**8) *Existing or future claims against the Company and its subsidiaries, or joint ventures, or directors or key management may have an unfavorable impact to the Company and its business.***

From time to time, the Company, its subsidiaries, or joint ventures or directors or key management officers may be subject to litigation, investigations, claims and other proceedings. For a description of certain legal proceedings, see "*Certain Legal Proceedings*" and "*Directors, Executive Officers and Control Persons – Involvement in Certain Legal Proceedings*" of this Prospectus. Legal proceedings could cause the Company to incur unforeseen expenses, occupy a significant amount of management's time and attention, and negatively affect the Company's business operations and financial position. Further, legal proceedings could continue for a prolonged period of time and be time-consuming with unpredictable outcomes and it is difficult for the Company to predict the possible losses, damages or expenses arising from such legal proceedings. An unfavorable outcome in these or other legal proceedings could have a material adverse effect on the business, financial position and results of operations and cash flows of the Company.

Being the face of the Company, any negative publicity against Dennis A. Uy may have a negative impact on the Company and its business. Against this reputational risk, the Company will continue to assert the same strong defenses for Mr. Uy which have been correctly upheld by the courts. The Company notes that while Mr. Dennis Uy is the face of the company, its day to day operations and strategies are managed and decided upon by professionals.

Other court cases typical and customary in the course of business operations of every company such as those, among others, involving collection, B.P. 22, qualified theft and reckless imprudence have been filed by the Company and/or its subsidiaries against its employees and/or third parties. The Company, notes, however, that these proceedings have no material and adverse effect on the financial condition or the business of the Company and/or its subsidiaries.

**9) *The Company relies primarily on a small number of suppliers for a significant portion of its petroleum products***

The Company sources its various petroleum requirements from a small number of suppliers. The ability of such suppliers to supply the Company is subject to a variety of factors beyond the Company's control, such as political developments, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall economic conditions. Any disruption in the operations of one or more of its suppliers could negatively impact the Company's supply. If the Company's supply is disrupted, the Company would be required to meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time of the disruption, such purchases from other suppliers or the spot market could be at higher prices than the Company's purchases from its existing suppliers, which would adversely affect the Company's financial condition and results of operations.

To mitigate this risk, the Company has adopted an inventory management system based on historical sales and forecast demands which allows the Company to timely meet the supply needs of its clients. [In addition, the Company established PNX SG which acts as a regional hub handling the purchase of the Company's various petroleum requirements.

***10) Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the Company's business and prospects.***

Any potential increase in oil prices and environmental concerns could make it more attractive for the Company's customers to switch to alternative fuels such as natural gas, ethanol and palm oil methyl ester fuel blends. If alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by the Company, resulting in lower sales volumes. In recent years, the Philippine government has enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline and diesel fuels sold or distributed by every oil company in the Philippines, and these types of requirements may be increased in the future. If the Company does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

***11) Changes in applicable accounting standards may impact the Company's businesses, financial condition and results of operations.***

The PFRS Council issues, from time to time, new standards and amendments to existing standards and interpretations. There can be no assurance that the Company's financial condition, results of operations or cash flows will not appear to be materially worse under the new standards. For example, effective January 1, 2019, lessees may no longer classify their leases as either operating or finance leases in accordance with Philippine Accounting Standard 17. Rather, lessees will be required to apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of twelve months or less or for which the underlying asset is of low value are exempted from these requirements. There can be no assurance that the Company's financial condition and results of operations will not be materially affected under PFRS 16. Furthermore, any failure to successfully adopt the new standards may adversely affect the Company's results of operations or financial condition.

**RISKS RELATING TO THE PHILIPPINES**

***1) The Company's business and sales may be negatively affected by slow growth rates and economic instability globally and in the Philippines.***

The Company, since its commencement of operations, has derived all of its revenues and operating profits from sales of its petroleum products in the Philippines. The Company's business has mostly been influenced by the Philippine economy and the level of business activity in the country.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso and debt restructuring, and has been significantly affected by economic volatilities in the Asia-Pacific region. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine consumers' purchasing power, which could materially affect the Company's financial condition and results of operations.

In addition, global financial, credit and currency markets have, since the second half of 2007,

experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and the global economy, which would be likely to cause economic conditions in the Philippines to deteriorate.

A slowdown in the Philippine economy may affect consumer sentiment and lead to a reduction in demand for the Company's products. There is also no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

**2) *Political instability or acts of terrorism in the Philippines could destabilize the country and may have a negative effect on the Company.***

The Philippines has from time to time experienced political and military instability, including acts of political violence. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately-owned public utility or business. In the last few years, there were instances of political instability, including impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by the previous administration. In addition, a number of current and past officials of the Philippine government are currently under investigation or have been indicted for graft, corruption, plunder, extortion, bribery, or usurpation of authority.

On March 27, 2014, the Government and the Moro Islamic Liberation Front ("**MILF**") signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On September 10, 2014, the draft of the Bangsamoro Basic Law ("**BBL**") was submitted by then-President Benigno C. Aquino III to the Philippine Congress. The BBL is a draft law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which will replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters ("**BIFF**") and MILF leading to the deaths of members of the Special Action Force ("**SAF**") of the Philippine National Police, MILF, the BIFF, and several civilians, Congress stalled deliberations on the BBL.

On March 27, 2015, former President Aquino convened a Peace Council, originally composed of five members, to study the draft BBL. An additional 17 co-convenors were later named as part of the Peace Council. The Council examined the draft law and its constitutionality and social impact. The Council Members testified before both Houses of Congress, and submitted their report, which endorsed the draft BBL but with some proposed amendments. On May 13-14, 2015, the Senate conducted public hearings on the BBL in Zamboanga, Jolo, and Sulu, with the Zamboanga City government and sultanate of Sulu opposing their inclusion in the proposed Bangsamoro entity. The House committee approved the draft and renamed it as Basic Law for the Bangsamoro Autonomous Region, while the Senate renamed its version as Bangsamoro Autonomous Region Law. Congress, however, failed to pass the law before it adjourned.

Presidential elections for the Philippines were held on May 9, 2016 and on June 30, 2016 President Rodrigo Duterte assumed the presidency with a solid mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte administration has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. A new version of the BBL was crafted under the Duterte administration, which was finally signed

into law by President Rodrigo Duterte on July 26, 2018. The Bangsamoro Organic Law (“**BOL**”) abolished the Autonomous Region in Muslim Mindanao, and created the Bangsamoro Autonomous Region in Muslim Mindanao (“**BARMM**”). The BARMM will be parliamentary-democratic in form, and will be headed by a chief minister, who will preside over an 80-member parliament. The BOL, however, still has to be cleared by a plebiscite and overcome possible legal challenges.

On May 11, 2018, the Supreme Court granted a *quo warranto* petition filed against then Chief Justice Lourdes A. Sereno resulting in her removal as Chief Justice. On June 19, 2018, the Supreme Court affirmed its decision. On June 2018, former President Benigno Aquino III was indicted for usurpation of legislative powers concerning the Disbursement Acceleration Program during his term. Moreover, several individuals who were high-ranking officers under the administration of President Aquino have also been indicted for graft and corruption charges and drug trafficking among other offenses. In addition, since the commencement of the current administration, more than 1,000 alleged drug dealers and users have been killed in police operations, and more than 1,300 drug dealers and drug users have been killed by supposed vigilantes.

Currently, the Duterte administration is pushing for a shift to a federal form of government. For this purpose, the President created a consultative committee to review the 1987 Constitution and draft a federal constitution.

There can be no assurance that there will not be any future political events that could destabilize the Philippines resulting in a negative effect on the general economic conditions of the country. Any such event could have a material impact on the Company’s business, financial position, and results of operations.

Furthermore, there number of terrorist attacks since 2000, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. Additionally, there have been clashes with various separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in September 2013, a faction of the Moro National Liberation Front (“**MNLF**”) allegedly led by Nur Misuari, a former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tension between the Philippine Armed Forces and the MNLF in the southern part of the country. In an operation to capture wanted international terrorist Zulkifli Bin Hir alias Marwan on 25 January 25, 2015, 44 police commandos were killed in a 12-hour fire fight with two Muslim rebel groups: MILF and BIFF in the Southern Philippines.

On May 23, 2017, a clash erupted in Marawi, Lanao del Sur between government security forces and the ISIS affiliated-Maute group, following the government’s offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared martial law in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on July 22, 2017, both Houses of Congress voted to grant the request of President Duterte to extend martial law in Mindanao until the end of 2017 as the rebellion could not be completely quashed over the initial 60-day period of martial law. Prior to the end of 2017, in a special joint session convened on December 13, 2017, both Houses of Congress voted to grant the request of President Duterte to further extend martial law in Mindanao until the end of 2018 as there are continued threats from local and ISIS-inspired terrorist groups. Some sectors however are wary of the prolonged extension of the martial law, citing its negative impact on business, tourism, the country’s image (as this relates to



the current administration's ability to quickly restore peace and order in Marawi), and investor confidence. The ongoing clashes have resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents. An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilization could cause interruption to parts of the Company's businesses and materially and adversely affect its financial conditions, results of operations and prospects.

**3) *The occurrence of natural or man-made catastrophes or major power outages may materially disrupt the Company's operations.***

The Philippines has encountered and is expected to experience a number of major natural and man-made catastrophes including typhoons, volcanic eruptions, earthquakes, mudslides, droughts or floods. Such catastrophes may restrict the Company's ability to distribute its products and impair the economic conditions in the affected areas, as well as the overall Philippine economy. Power outages are also experienced caused by insufficient power generation following strong typhoons and other natural catastrophes. These types of events may materially disrupt and affect the Company's business and operations.

While the Company has insurance policies that cover business interruption and material damage to its facilities caused by natural catastrophes, the Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes or major power outages, including possible business interruptions.

**4) *If foreign exchange controls were to be imposed, the Company's ability to access foreign currency to purchase petroleum, petroleum products, raw materials, equipment and other imported products, could be affected.***

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

The Company purchases some critical materials, particularly petroleum and petroleum products, and some capital equipment from abroad and needs foreign currency to make these purchases. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restrictions imposed in the future could affect the ability of the Company to purchase petroleum and other materials and equipment from abroad in U.S. Dollars.



**5) *Territorial and other disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment***

The Philippines, China and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea (“**UNCLOS**”). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies and the rejection by China of the Philippines’ request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

On July 12, 2016, the Permanent Court of Arbitration ruled in favor of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has “no historical rights” to the resources within the sea areas falling within the “nine-dash line;” (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China had violated the Philippines’ sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognize the ruling. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious.

There had been other occurrences of territorial disputes with Malaysia and Taiwan. In March 2013, several hundred armed Filipino-Muslims illegally entered Malaysia in a bid to enforce an alleged historical claim on the territory. Clashes between the Filipino-Muslim individuals and the Malaysian armed forces resulted in casualties on both sides. Taiwan imposed economic sanctions on the Philippines as a result of an incident in May 2013, whereby a Taiwanese fisherman was unintentionally killed by a Philippine Coast Guard ship that opened fire on his vessel in a disputed exclusive economic zone between Taiwan and the Philippines. The sanctions were eventually lifted after a formal apology was issued by the Government.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and materially and adversely affect the Company’s financial condition and results of operations.

**RISKS RELATING TO THE COMMERCIAL PAPERS**

**1) *The Company cannot guarantee that there will be an active or liquid trading market for the Commercial Papers.***

The Philippine securities markets are substantially smaller, less liquid and more concentrated than major securities markets. The Company cannot guarantee that the market for the Commercial Papers will always be active or liquid. Even if the Commercial Papers are listed on the PDEX, trading in securities such as the Commercial Papers may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets,

and the overall market for debt securities among other factors. There is no assurance that the Commercial Papers may be easily disposed at prices and volumes at instances best deemed appropriate by their holders.

The Company has no control of this risk as active trading of the Commercial Papers is highly dependent on the Commercial Paper Holders.

**2) *The Company may be unable to redeem the Commercial Papers.***

At their respective maturity dates, the Company will be required to redeem all of the Commercial Papers on the relevant maturity date. If such an event were to occur, the Company may not have sufficient cash on hand or may not be able to arrange financing to redeem the maturing Commercial Papers in time, or on acceptable terms, or at all. The ability to redeem the maturing Commercial Papers in such event may also be limited by the terms of other debt instruments of the Company. The failure by the Company to repay, repurchase or redeem the maturing Commercial Papers would constitute an event of default under the Commercial Papers, which may also constitute a default under the terms of other indebtedness of the Company.

The Company has a strong recurring cash flow and a high level of liquidity in its balance sheet. The Company believes that it has sufficient resources which will allow it to redeem the Commercial Papers.

**3) *The holder of the Commercial Papers may face a possible gain or incur a loss when they decide to sell the Commercial Papers.***

As with all fixed income securities, the market value of the Commercial Papers moves (either up or down) depending on the change in interest rates. The Commercial Papers when sold in the secondary market are worth more if interest rates decrease since the Commercial Papers have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the Commercial Papers are worth less when sold in the secondary market. Therefore, holders who may either make a gain or incur a loss when they decide to sell the Commercial Papers.

**4) *The Issuer may not be able to retain its credit rating.***

There is no assurance that the credit rating of the Issuer will be retained throughout the life of the Commercial Papers. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

**5) *The Commercial Papers have no preference under Article 2244(14) of the Civil Code.***

No other loan or other debt facility currently or to be entered into by the Issuer shall have preference of priority over the Commercial Papers as accorded to public instruments under Article 2244(14) of the Civil Code, and all banks and lenders under any such loans or facilities that are notarized have waived the right to the benefit of any such preference or priority. However, should any bank or security holder hereinafter have a preference or priority over the Commercial Papers as a result of notarization, then the Issuer shall at the Issuer's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Commercial Papers as may be practicable.

## MANAGEMENT OF RISKS

In general, the Company believes that the risk factors discussed herein are mitigated by its competitive strengths and business strategies. See the subsections entitled “*Competitive Strengths*” and “*Business Strategy*” under the “*Description of Business*” section of this Prospectus.

## USE OF PROCEEDS

Following the offer and sale of the Offered CPs in the amount of up to ₱7,000,000,000, the Company expects that the net proceeds of the Offer shall amount to approximately ₱6,900,948,191 after deducting the applicable fees, commissions and expenses.

Net proceeds from the Offer are estimated as follows:

	<b>Total</b>
Estimated proceeds from the sale of the Offered CPs	₱7,000,000,000
Less:	
Documentary Stamp Tax	₱52,500,000
SEC Registration & Legal Research Fee	3,093,125
Underwriting Fee	29,473,684
Estimated Professional Expenses & Agency fees	13,485,000
Marketing/Printing/Photocopying Costs and out-of-pocket expenses	500,000
Total Estimated Upfront Expenses	99,051,809
<b>Estimated net proceeds to Company</b>	<b>₱6,900,948,191</b>

Aside from the fees enumerated above, the Company expects the following annual expenses related to the Offer:

1. The Company will be charged the annual maintenance fee amounting to ₱84,000 per annum, to be paid in advance upon the approval of the Listing;
2. The Company will pay an annual retainer fee to the Trustee amounting to ₱400,000 per annum; and
3. After the Issue Date, a paying agency fee amounting to ₱[•] is payable every interest payment date. The Registrar will charge a monthly maintenance fee based on the face value of the Offered CPs and the number of relevant Commercial Paper Holders.

Expenses incurred in connection with the Offer, including documentary stamp tax, fees of the Trustee, and the Registrar and Paying Agent will be for the account of the Issuer.

The net proceeds of the Offer amounting to approximately ₱6,900,948,191 shall be used to primarily to (i) finance working capital requirements in relation to the regular importation of fuels and lubricants by the Company; and/or (i) refinance existing short-term loans of the Issuer, as set out in the schedule presented below. The Company will use the net proceeds from the Offer within [December 2018].

<b>Breakdown of Usage</b>	<b>Total Amount (in ₱)</b>	<b>Percentage</b>	<b>Timing of Disbursement</b>
i. Importation of fuels and lubricants	[4,901,040,000]	[70]%	[December 2018]
ii. Repayment of short-term loan facility with [BDO Unibank, Inc.]	[500,000,000]	[7]%	[December 2018]

	due [December 18, 2018]			
iii.	Repayment of short-term loan facility with [Asia United Bank Corp.] due [December 20, 2018]	[334,960,000]	[5]%	[December 2018]
iv.	Repayment of short-term loan facility with [Robinsons Bank Corp.] due [December 27, 2018]	[355,000,000]	[5]%	[December 2018]
v.	Repayment of short-term loan facility with [United Coconut Planters Bank] due [December 27, 2018]	[450,000,000]	[6]%	[December 2018]
vi.	Repayment of short-term loan facility with [Development Bank of the Philippines] due [December 27, 2018]	[459,000,000]	[7]%	[December 2018]
<b>TOTAL</b>		<b>[7,000,000,000]</b>	<b>100%</b>	<b>-</b>

In case the net proceeds of the Offer will not be sufficient, the balance will be financed from the Company's internally generated funds.

Pending the above use of proceeds, the Company intends to invest the net proceeds of the Offer in short-term liquid investments including, but not limited to, short-term government securities, bank deposits and money market placements which are expected to earn prevailing market rates. In the event such investments should incur losses, any shortfall will be financed from the Company's internally generated funds.

Except for the purposes stated in the preceding paragraphs, there are no other current plans for the proceeds or any significant portion thereof. The proceeds shall not be used to reimburse any of the officers, directors, employees or other shareholders for services rendered, assets previously transferred, loans, advances or otherwise.

The Company undertakes that it will not use the net proceeds from the Offer for any purpose, other than as discussed above. Any material or substantial deviation/adjustment/reallocation in the planned use of proceeds shall be approved by the Company's Board of Directors and the Company shall seek approval of the SEC within 30 days prior to its implementation.

## DETERMINATION OF OFFER PRICE

The Commercial Papers shall be issued at a discount to face value.

Below is an illustration of the computation of the Offer Price for the Commercial Paper Series A.

Sample Discount Rate Computation		
Days per year	360	
Taxes on interest	20%	
	CP Series A-1	CP Series A-2
Issue Date	11/30/2018	11/30/2018
Maturity Date	05/30/2019	11/30/2019
Days	180	360
Discount Rate	5.5000%	6.4000%
<i>in ₱</i>		
Face Value	5,000,000.00	100,000.00
Less: Issue Discount	- 133,819.95	- 60,150.38
Tax on Discount	26,763.99	12,030.07
Cost	4,892,944.04	951,879.69
<b>Offer Price</b>	<b>97.8588%</b>	<b>95.1879%</b>

## PLAN OF DISTRIBUTION FOR THE INITIAL SERIES OF THE COMMERCIAL PAPERS PROGRAM

The Company plans to issue the Offered CPs to institutional and retail investors in the Philippines through a general public offering to be conducted by the Sole Issue Manager, Lead Underwriter and Sole Bookrunner.

### THE LEAD UNDERWRITER

PNB Capital, pursuant to an Underwriting Agreement with Phoenix dated [•], 2018 (the “**Underwriting Agreement**”), has agreed to act as the Lead Underwriter for the Offer and as such, distribute and sell the Commercial Paper Series A at the issue price, and has also committed to underwrite up to Seven Billion Pesos (₱7,000,000,000) of the Offer on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

PNB Capital is the Lead Underwriter for the Offer of the Commercial Paper Series A. For the Offer of the Commercial Paper Series A, the Lead Underwriter will receive a fee of up to [0.40]% on the underwritten principal amount of the Offered CPs issued. Such fee shall be inclusive of underwriting and participation commissions.

For the Commercial Paper Series A, the amount of the commitment of the Lead Underwriter is as follows:

Lead Underwriter	Underwriting Commitment
PNB Capital	₱[•]
<b>Total</b>	<b>₱7,000,000,000.00</b>

There is no arrangement for the Lead Underwriter to return any unsold Offered CPs to Phoenix. The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to Phoenix of the net proceeds of the Offered CPs.

The Lead Underwriter is duly licensed by the SEC to engage in underwriting or distribution of the Offered CPs. The Lead Underwriter may, from time to time, engage in transactions with and perform services in the ordinary course of its business with Phoenix, its affiliates and subsidiaries, or other members of the Udenna Group.

PNB Capital is the wholly-owned investment banking subsidiary of the Philippine National Bank and is duly licensed by the SEC to engage in underwriting and distribution of securities. It was incorporated in July 30, 1997 and commenced operations in October 8, 1997. PNB Capital provides investment banking services such as underwriting of equity and debt securities, loan syndication, project finance, private placement and financial advisory. PNB Capital is authorized to buy and sell for its own account, securities issued by private corporations and the Government.

The Lead Underwriter has no direct relations with Phoenix in terms of ownership by either of their respective major stockholder/s, and has no right to designate or nominate any member of the Board of Directors of Phoenix.

The subsequent issuances and reissuances of the Commercial Papers shall, to the extent required by applicable regulations, be covered by a separate underwriting agreement to be executed by the Issuer and an underwriter duly licensed by the SEC to engage in underwriting or distribution of the Commercial Papers.

## **SALE AND DISTRIBUTION**

The distribution and sale of the Offered CPs shall be undertaken by the Lead Underwriter who shall sell and distribute the Offered CPs to third party buyers/investors. Nothing herein shall limit the right of the Lead Underwriter from purchasing the Offered CPs for their own respective accounts.

There are no persons to whom the Offered CPs are allocated or designated. The Offered CPs shall be offered to the public at large and without preference.

## **OFFER PERIOD**

The Offer Period shall commence at 10:00 a.m. on [•], 2018 and end at 5:00 p.m. on [•], 2018 or on such other date as the Issuer and Lead Underwriter may agree upon.

## **APPLICATION TO PURCHASE**

The procedure set out in this section and the succeeding sections should be read together with the more detailed procedure and other conditions set out in the Application to Purchase.

Applicants may purchase the Offered CPs during the Offer Period by submitting to the Lead Underwriter properly completed Applications to Purchase, together with two signature cards, and the full payment of the purchase price of the Offered CPs in the manner provided therein.

Corporate and institutional applicants must also submit, in addition to the foregoing, a copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, Articles of Incorporation, By-Laws, validly issued tax identification number issued by the BIR, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Offered CPs and designating the authorized signatory(ies) thereof, together with the identification documents of said signatories. Individual applicants must also submit, in addition to the foregoing, a photocopy of any one of the following identification cards (ID): passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID as well as validly issued tax identification number issued by the BIR. Additional documents may be requested from the applicants by the Lead Underwriter and/or the Registrar in the implementation of their internal policies regarding "know your customer" and anti-money laundering.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time) current and valid tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate; (ii) a duly notarized undertaking (in the prescribed form and substance by Phoenix) declaring and warranting that the same Commercial Paper Holder named in the tax



exemption certificate described in (a) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) with respect to tax treaty relief, a duly accomplished valid and current CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and/or duly notarized and consularized (if executed abroad) Special Power of Attorney executed by the applicant in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the applicant is not doing business in the Philippines to support the applicability of the tax treaty relief; and for subsequent interests due, Part II(D) of the CORTT Form shall be submitted by the Commercial Paper Holder to the Issuer (through the Registrar) no later than the 1<sup>st</sup> day of the month when such subsequent interest payments shall fall due and if applicable, including any clarification, supplement or amendment thereto ; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Commercial Paper Holder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Completed Applications to Purchase and corresponding payments must reach the Lead Underwriter prior to the end of the Offer Period, or such earlier date as may be specified by the Lead Underwriter. Acceptance by the Lead Underwriter of the completed Application to Purchase shall be subject to the availability of the Offered CPs and the acceptance by Phoenix. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase is deemed revoked.

#### **MINIMUM PURCHASE**

A minimum purchase of [₱1,000,000.00] shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of [₱100,000.00].

#### **ALLOTMENT OF THE OFFERED CPS**

If the Offered CPs are insufficient to satisfy all Applications to Purchase, the available Offered CPs shall be allotted in accordance with the chronological order of submission of properly completed Applications to Purchase on a first-come, first-served basis, subject to Phoenix's right of rejection.

#### **ACCEPTANCE OF APPLICATIONS**

Phoenix and the Lead Underwriter reserve the right to accept or reject applications to purchase the Offered CPs, and in case of oversubscription, allocate the Offered CPs available to the applicants in a manner they deem appropriate.

#### **REJECTION OF APPLICATIONS**

The Lead Underwriter and Sole Bookrunner shall accept, reduce or reject Applications to Purchase on behalf of the Issuer in accordance with the following provisions and the allocation plan. Reasons for rejection may include the following:

- (a) [Applications may be rejected if (i) the Offer Price is unpaid; (ii) payments are insufficient or where checks, as applicable, are dishonoured upon first presentation; (iii) the applications are not received by the Lead Underwriter and Sole Bookrunner on or before the end of the Offer Period; (iv) the number of Commercial Papers subscribed is less than the minimum amount of subscription; (v) the applications do not comply with the terms of the Offer; or (vi) the applications do not have sufficient information or are not supported by the required documents.]
- (b) Applications may be reduced if the Offer is oversubscribed, in which case the number of Offered CPs covered by the applications shall be reduced *pro rata*.

In the event an Application to Purchase is rejected or the amount of Commercial Papers applied for is scaled down for a particular applicant, the Lead Underwriter and Sole Bookrunner, Co-Lead Manager or relevant the Selling Agent shall notify the applicant concerned that his/her application has been rejected or that the amount of Commercial Papers applied for is scaled down.

## **REFUNDS**

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof shall be returned without interest to such applicant through the Lead Underwriter from whom such application to purchase the Offered CPs was made.

Refunds shall be made, at the option of the Lead Underwriter or the relevant Selling Agent, either (i) through the issuance of check(s) payable to the order of the relevant applicant and crossed "Payees' Account Only" and mailed or delivered, at the risk of the applicant, to the address specified in the Application to Purchase, or (ii) through the issuance of instructions for automatic credit payments to the accounts of the relevant applicants, as indicated in their respective Applications to Purchase.

## **PAYMENTS**

The principal of and all other amounts payable on the Commercial Papers shall be paid to the Commercial Paper Holders by crediting of the cash settlement accounts designated by each of the Commercial Paper Holders. The principal of the Commercial Papers shall be payable in Philippine Pesos.

The Issuer shall ensure that so long as any of the Commercial Papers remains outstanding, there shall at all times be a Paying Agent for the purposes of the Commercial Papers and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint the Makati City office of such other leading institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

## **UNCLAIMED PAYMENTS**

Any payment of interest on, or the principal of the Offered CPs which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Commercial

Paper Holders at the latter's risk and shall be dealt in accordance with the relevant provisions of the Registry and Paying Agency Agreement.

#### **PURCHASE AND CANCELLATION**

The Issuer may at any time purchase any of the Commercial Papers in the open market or by tender or by contract at market price, without any obligation to purchase (and the Commercial Paper Holders shall not be obliged to sell) Commercial Papers pro-rata from all Commercial Paper Holders. Any Commercial Papers so purchased shall be redeemed and cancelled. Upon listing of each Commercial Paper Series on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

#### **SECONDARY MARKET**

The Issuer intends to list each series of the Commercial Paper Series in the PDEX on Issue Date.

## DESCRIPTION OF THE COMMERCIAL PAPERS

*The following is a description of certain terms and conditions of the Commercial Papers (the “Terms and Conditions”). This description of the Terms and Conditions of the Commercial Papers set forth herein does not purport to be complete and is qualified in its entirety by reference to the agreements relating to the Commercial Papers, copies of which are available for inspection at the offices of the Trustee. The Terms and Conditions set out in this section will, subject to amendment, be set out in the Trust Indenture between the Issuer and the Trustee.*

*Prospective investors are enjoined to carefully review the Company’s Articles of Incorporation, By-Laws, and resolutions of its Board of Directors, the information contained in this Prospectus, the Trust Indenture, and other agreements relevant to the Offer such as the Application to Purchase, and perform their own independent investigation and analysis of the Issuer and the Commercial Papers. Prospective purchasers of the Commercial Papers are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Commercial Papers.*

### GENERAL

The issuance and reissuance of the Commercial Papers with an aggregate principal amount of up to ₱10,000,000,000 to be issued and reissued, in whole or in part and in one or more series under a Commercial Papers Program (each issuance and reissuance of Commercial Papers under the Commercial Paper Program shall be referred to as a “**Commercial Paper Series**”) was authorized by a resolution of the Board of Directors of Phoenix dated [•], 2018. Each Commercial Paper Series issued under the Commercial Paper Program shall be denominated alphabetically, with the initial series referred to as the “Commercial Paper Series A” and the subsequent series shall be referred to as “Commercial Paper Series B” and so on and so forth. The Issuer, in consultation with the Sole Issue Manager, shall have the sole discretion to allocate the principal amount of each Commercial Paper Series among the different subseries, if any, and may opt to allocate the entire amount of each offer to one subseries only.

The initial Commercial Paper Series will be issued with an aggregate principal amount of up to ₱7,000,000,000 (the “Commercial Paper Series [A]”), comprised of: (i) Commercial Paper Series A-1 maturing one hundred eighty (180) days from the Issue Date with a fixed discount rate of [•]% per annum (the “CP Series A-1”); and (ii) Commercial Paper Series A-2 maturing three hundred sixty (360) days from the Issue Date with a fixed discount rate of [•]% per annum (the “CP Series A-2”).

On [•], Phoenix filed a Registration Statement with the SEC in connection with the offer and sale to the public of the Commercial Papers up to an aggregate principal amount of ₱10,000,000,000 under a Commercial Papers Program, which shall be issuable and reissuable, in whole or in part, in one or more series.

The SEC is expected to issue an order rendering the Registration Statement effective (the “**RS Effectivity Date**”), and a corresponding permit to offer securities for sale covering the Commercial Papers Program. Within three (3) years following the RS Effectivity Date, the Company may, in consultation with the Issue Manager, issue or reissue up to an aggregate principal amount of ₱10,000,000,000, in whole or in part, of Commercial Papers covered by such Registration Statement, in one or more series under Rule 12.1.2.5 of the SRC-IRR, provided that the outstanding principal amount of the Commercial Papers at any time shall not exceed Ten Billion Pesos (₱10,000,000,000).

The Commercial Paper shall be constituted by a Trust Indenture executed on [•], 2018 (the “**Trust Indenture**”) between the Issuer and PNB Trust Banking Group (the “Trustee”, which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Indenture). The description of the Terms and Conditions of the Commercial Paper set out below includes summaries of, and is subject to, the detailed provisions of the Trust Indenture and the Registry and Paying Agency Agreement executed on [•], 2018 (the “**Registry and Paying Agency Agreement**”) among the Issuer, the Registrar, and the Paying Agent.

PDTC has no interest in or relation to Phoenix which may conflict with its roles as Registrar and as Paying Agent of the Commercial Papers. PNB Trust Banking Group has no interest in or relation to Phoenix which may conflict with its role as Trustee for the Commercial Papers. [PNB Trust Banking Group] is an affiliate of PNB Capital and Investment Corporation, the Lead Underwriter.

Copies of the Trust Indenture and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee and the Registrar, respective. The Commercial Paper Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Indenture and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

*[Note: The terms and conditions below are subject to revisions and shall be further updated upon finalization of the transaction documents.]*

## **1. Form, Denomination and Title**

### **(a) Form and Denomination**

The Commercial Papers shall be issued in scripless form, in minimum denominations and multiples to be set by the Issuer, in consultation with the Sole Issue Manager for each Commercial Paper Series. The Commercial Papers will be traded in denominations of One Hundred Thousand Pesos (₱100,000.00) in the secondary market.

### **(b) Title**

Legal title to the Commercial Papers shall be shown on and recorded in the Register of Commercial Paper Holders maintained by the Registrar. A notice confirming the principal amount of the Commercial Papers purchased by each applicant shall be issued by the Registrar to all Commercial Paper Holders following the relevant Issue Date. Upon any assignment, title to the Commercial Papers shall pass by recording the transfer from a transferor to the transferee in the Register of Commercial Paper Holders. Settlement in respect of such transfer or change of title to the Commercial Papers, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, shall be for the account of the relevant Commercial Paper Holder or the transferee, as applicable.

### **(c) Issuer Credit Rating**

The Issuer will be rated by an accredited and reputable credit rating agency. Such ratings are not recommendations to buy, sell, or hold the Commercial Papers, and may be subject to revision, suspension, or withdrawal at any time by the rating agency.

The rating is subject to annual review, or more frequently as market developments may dictate, for as long as the relevant Commercial Paper Series is outstanding. After the

relevant Issue Date, the Trustee shall monitor the compliance of each Commercial Paper Series with the regular annual reviews.

## **2. Register and Transfers**

### **(a) Register of Commercial Paper Holders**

The Issuer shall cause the Register of Commercial Paper Holders to be kept by the Registrar, in electronic form, at the specified office of the Registrar.

A Master Certificate of Indebtedness representing the Commercial Papers issued with respect to the relevant Commercial Paper Series shall be issued to and registered in the name of the Trustee, on behalf of the Commercial Paper Holders. Legal title to the Commercial Papers shall be shown in the Register of Commercial Paper Holders to be maintained by the Registrar. Initial placement of the Commercial Papers and subsequent transfers of interests in the Commercial Papers shall be subject to applicable Philippine selling restrictions prevailing from time to time.

The names and addresses of the Commercial Paper Holders and the particulars of the Commercial Papers held by them and of all transfers of Commercial Papers shall be entered into the Register of Commercial Paper Holders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Commercial Paper Holders.

As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Commercial Paper Holder a written statement of registry holdings at least quarterly (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Commercial Papers that is effected in the Registrar's system (at the cost of the Issuer). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Commercial Paper Holder as of the date thereof. Any requests of Commercial Paper Holders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Commercial Paper Holder. No transfers of the Commercial Papers may be made during the period commencing the Record Date.

### **(b) Transfers; Tax Status**

Transfers across Tax Categories shall not be allowed, except on an Interest Payment Date; provided, however, that transfers from a tax-exempt Tax Category to a taxable Tax Category in a date other than an Interest Payment Date shall be allowed using the applicable tax-withheld series name of PDEx, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. For purposes hereof, "Tax Categories" refer to the four (4) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities, 25% tax-withheld entities, and 30% tax-withheld entities. Transfers taking place in the Register of Commercial Paper Holders after the Commercial Papers are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax exempt entities, if and/or when allowed under and are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. Transfers to or from Commercial Paper Holders claiming the benefit of any tax treaty which subjects the interest income to a final withholding tax rate other than the Tax Categories indicated above shall be allowed except on the period commencing the Record Date.

A Commercial Paper Holder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar.

Further, Applicants claiming exemption or preferential rate from any applicable tax shall also be required to submit the following documentary proof of its tax-exempt or preferential status together with this Application to Purchase:

- (i) Certified true copy of the (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time) current and valid original tax exemption certificate, ruling or opinion issued by the BIR confirming the exemption or preferential rate;
  - (ii) A duly notarized undertaking (in the prescribed form and substance by Phoenix) declaring and warranting that the same Commercial Paper Holder named in the tax exemption certificate described in (a) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify Phoenix and the Registrar of any suspension or revocation of its tax exemption certificates or preferential rate entitlement and agreeing to indemnify and hold Phoenix, the Registrar and the Paying Agent free and harmless against any claims, actions, suits and liabilities resulting from the non-withholding of the required tax; and
  - (iii) Such other documentary requirements as may be required by Phoenix, the Registrar or the Paying Agent under the applicable regulations of the relevant taxing or other authorities, which for purposes of claiming tax treaty withholding rate benefits shall include a duly accomplished Certificate of Residence for Tax Treaty Relief (CORTT) Form prescribed in Revenue Memorandum Order No. 8-17, evidence of the applicability of a tax treaty provision, a consularized proof of the Commercial Paper Holder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Commercial Paper Holder is not doing business in the Philippines; provided further that, upon submission of reasonable evidence of exemption or preferential rate entitlement of the Applicant to the Registrar, all sums payable by Phoenix to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges from and to the extent which the Commercial Paper Holder has adequately evidenced exemption.
- (c) Registrar

For transfers and record updates, notices and communication with the Registrar may be made thru the following:

Philippine Depository & Trust Corp.  
[37<sup>th</sup> Floor Enterprise Centre Tower I]  
[Ayala Avenue, Makati City, Metro Manila]

Telephone no: [(632) 884-4425]  
Fax no: [(632) 757-6025]

E-mail: [baby\_delacruz@pds.com.ph]  
Attention: [Josephine Dela Cruz, Associate Director]

(d) Secondary Trading of the Commercial Papers

The Issuer intends to list each Commercial Paper Series in PDEX for secondary market trading. The Commercial Papers will be traded in a minimum board lot size of [₱100,000.00] as a minimum, and in multiples of [₱100,000.00] in excess thereof for as long as any of the Commercial Paper are listed on PDEX. Secondary market trading in PDEX shall follow the applicable PDEX rules, conventions, and guidelines governing trading and settlement between Commercial Paper Holders of different tax status and shall be subject to the relevant fees of PDEX and PDTC.

**3. Ranking**

The Commercial Papers, when issued, shall constitute the direct, unconditional, unsecured, and unsubordinated obligations of the Issuer to the Commercial Paper Holders, enforceable according to the Terms and Conditions thereof. The obligations of the Issuer under the Commercial Papers shall at all times rank at least *pari passu* in all respects and ratably without any preference or priority (except for any statutory preference or priority applicable in the winding-up of the Issuer) amongst themselves and at least *pari passu* with all other outstanding unsecured and unsubordinated obligations (contingent or otherwise, present or future) of the Issuer.

Except as indicated herein, no other loan or other facility currently or to be entered into by Issuer is notarized such that no other loan or facility to which Issuer is a party shall have preference or priority over the Commercial Papers as accorded to public instruments under Article 2244(14)(a) of the Civil Code of the Philippines, and all creditors under any such loans or facilities have waived the right to the benefit of any such preference or priority. However, should any creditor hereinafter have a preference or priority over amounts due under the Commercial Papers as a result of a notarization then Issuer shall procure a waiver of this preference created by such notarization. Annex [●] is a complete and accurate list of Issuer's notarized loans or other facilities as of the date of this Terms and Conditions.

**4. Interest**

The Commercial Papers is a discounted security. Interest shall be discounted from the face value of the Commercial Papers, accrued and payable on the relevant Maturity Dates (as defined in the discussion on "*Final Redemption*"). The Discount Rate shall be calculated on a true-discount basis based on the actual number of days to maturity and on the basis of a 360-day year consisting of twelve (12) months of thirty (30) days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of thirty (30) days.

**5. Redemption and Purchase**

(a) Final Redemption

Unless otherwise earlier redeemed, or previously purchased and cancelled, the Commercial Papers shall be repaid in full (or 100% of face value) on the relevant Maturity Date, unless, upon due presentation, payment of the principal in respect of the Commercial Papers then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest



(see “*Penalty Interest*”) shall apply. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

The cut-off date in determining the existing Commercial Paper Holders entitled to receive interest, principal amount or any amount due under each Commercial Paper Series shall be two (2) Business Days prior to the relevant Maturity Date (the “**Record Date**”). No transfers of the Commercial Papers may be made commencing on the Record Date.

(b) Purchase and Cancellation

The Issuer may at any time purchase any of the Commercial Papers in the open market or by tender or by contract at market price, without any obligation to purchase (and the Commercial Paper Holders shall not be obliged to sell) Commercial Papers pro-rata from all Commercial Paper Holders. Any Commercial Papers so purchased shall be redeemed and cancelled. Upon listing of each Commercial Paper Series on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

(c) Redemption for Taxation Reasons

If payments under the Commercial Papers become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the relevant Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Commercial Papers in whole, but not in part, (having given not more than sixty (60) nor less than thirty (30) days’ prior written notice to the Trustee) at par plus accrued interest, net of applicable withholding taxes.

(d) Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances (“**Change in Law or Circumstance**”) as it refers to the obligations of the Issuer and to the rights and interests of the Commercial Paper Holders under the Trust Indenture and the Commercial Papers:

- (i) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Indenture or the Commercial Papers shall be modified in a manner which, in the reasonable opinion of the Trustee, shall materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld.
- (ii) Any provision of the Trust Indenture or any of the related documents is or shall become, for any reason, invalid, illegal or unenforceable to the extent that shall become for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Indenture or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Indenture or any other related documents.

- (iii) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.
- (iv) The Republic of the Philippines or any competent authority thereof takes any action to suspend the whole or a substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets, unless such act, deed or proceedings are contested in good faith by the Issuer.

If any one or more of the events enumerated as a Change of Law or Circumstance shall occur and be continuing for a period of thirty (30) days, the Majority Commercial Paper Holders, by notice in writing delivered to the Issuer through the Trustee, after the lapse of the said thirty (30) day period, may declare the outstanding principal of the Commercial Papers, including all accrued interest, net of applicable withholding taxes, and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, without any prepayment penalty, anything contained in the Trust Indenture or in the Commercial Papers to the contrary notwithstanding, subject to the notice requirements under the discussion on *Notice of Default* in the Terms and Conditions of the Commercial Papers

(e) Reissuance

Issuer reserves the right during the validity of the Registration Statement for the Commercial Papers to (a) issue additional Commercial Papers; or (b) reissue (i) Commercial Papers that mature and are repaid on the relevant Maturity Date; or (ii) Commercial Papers that are repurchased by the Issuer on the open market (PDEx) prior to the relevant Maturity Date, *provided that*, at any time during the three (3)-year validity of the Registration Statement, there will be no more than ₱10,000,000,000 in aggregate principal amount of Commercial Papers outstanding and none of the Commercial Papers will have a maturity date of 365 days or more; *provided further*, that any and all relevant taxes, including, but not limited to, documentary stamp tax on the indebtedness, shall be paid by the Issuer for each issuance and reissuance of the Commercial Papers.

## 7. Payments

The principal of and all other amounts payable on the Commercial Papers shall be paid to the Commercial Paper Holders by crediting of the cash settlement accounts designated by each of the Commercial Paper Holders. The principal of the Commercial Papers shall be payable in Philippine Pesos.

The Issuer shall ensure that so long as any of the Commercial Papers remains outstanding, there shall at all times be a Paying Agent for the purposes of the Commercial Papers and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint the Makati City office of such other leading institution in the Philippines

authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

## **8. Payment of Additional Amounts; Taxation**

Interest income on the Commercial Papers is subject to a final withholding tax at rates of between twenty percent (20%) and thirty percent (30%) depending on the tax status of the relevant Commercial Paper Holder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

- (a) The withholding tax applicable on interest income earned on the Commercial Papers prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:
  - (i) certified true copy of the tax exemption certificate, ruling, or opinion issued by the BIR confirming the exemption or preferential rate;
  - (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and
  - (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Commercial Paper Holder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Commercial Paper Holder is not doing business in the Philippines; provided further that all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments, or government charges, subject to the submission by the Commercial Paper Holder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;
- (b) Gross Receipts Tax under Section 121 of the Tax Code;
- (c) Taxes on the overall income of any securities dealer or Commercial Paper Holder, whether or not subject to withholding; and

- (d) Value-added Tax under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.
- (e) Any applicable taxes on any subsequent sale or transfer of the Commercial Papers by any Commercial Paper Holder which shall be for the account of such Commercial Paper Holder (or its buyer, as the holder and the buyer may have agreed upon).

Documentary stamp tax for the primary issue of the Commercial Papers and the execution of the Commercial Paper Agreements, if any, shall be for the Issuer's account.

See the sections entitled "*Philippine Taxation*" of this Prospectus for a more detailed discussion on the tax consequences of the acquisition, ownership and disposition (e.g. secondary transfer) of the Commercial Papers.

## 9. Financial Ratios

The Issuer shall maintain, for as long as any of the Commercial Papers remain outstanding, a Debt to Equity Ratio of not more than 3:1.

where "Debt to Equity Ratio" means as of the relevant date of determination, (a) the Company's total Debt, divided by (b) total Equity, each as reflected in the Company's audited or unaudited, as the case may be, consolidated financial statements as of the last day of the immediately preceding quarter; provided, that for purposes of computing the Debt-to-Equity Ratio, the Company's total indebtedness means, without duplication all short-term and long-term interest bearing obligations of the Company, direct or contingent, for borrowed money including, for the avoidance of doubt, the Company's obligations arising from the issuance of any class or series of capital stock that by its terms or otherwise is (a) required to be redeemed, or (b) redeemable at the option of the holder of such class or series of capital stock.

## 10. Negative Pledge

For as long as any of the Commercial Papers remain outstanding, the Issuer covenants that it shall not, without the prior written consent of the Commercial Paper Holders who hold, represent or account for more than fifty percent (50%) of the principal amount of the Commercial Papers then outstanding (the "**Majority Commercial Paper Holders**"), sell all or substantially all of its assets or businesses, permit any indebtedness for borrowed money to be secured by or to benefit from any mortgage, pledge, lien or encumbrance constituted on any of the Issuer's properties for the purpose of securing its or its Affiliate's obligation (a "**Lien**") in favor of any creditor or class of creditors without providing the Commercial Paper Holders with a Lien, the benefit of which is extended equally and ratably among them to secure the Commercial Papers; provided however that, this restriction shall not prohibit "Permitted Liens," which are:

- (a) Any Lien over any asset, including, but not limited to assets purchased, leased, or developed in the ordinary course of business, to secure: (i) the payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the

purchase, lease or development of such asset.

- (b) Any Lien existing on the date of the Trust Indenture which is disclosed in writing by the Issuer to the Trustee prior to the execution of the Trust Indenture.
- (c) Any Lien over or affecting any asset of any company which becomes a member of the Group after the date of the Trust Indenture, where the Lien is created prior to the date on which that company becomes a member of the Group.
- (d) Any Lien created for the purpose of paying current taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty; or the validity of which is contested in good faith in appropriate proceedings upon stay of execution of the enforcement thereof and adequate reserves having been provided for the payment thereof.
- (e) Any Lien arising by operation of law (other than any preference or priority under Article 2244(14)(a) of the Civil Code of the Philippines, as the same may be amended from time to time) on any property or asset of the Company or its Subsidiaries;
- (f) Any Lien to secure, in the normal course of the business of the Issuer or its Affiliates: (i) statutory or regulatory obligations; (ii) surety or appeal bonds; (iii) bonds for release of attachment, stay of execution or injunction; or (iv) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases.
- (g) Any Lien established in favor of insurance companies and other financial institutions in compliance with the applicable requirements of the Office of the Insurance Commission on admitted assets or the requirements of the BSP on loans and financial accommodations extended to directors, officers, stockholders and related interests.
- (h) Any Lien in favor of banks, insurance companies, other financial institutions and Philippine government agencies, departments, authorities, corporations or other juridical entities, which secure a preferential financing obtained by the Issuer under a governmental program, and which cover assets of the Issuer which have an aggregate appraised value, determined in accordance with generally accepted appraisal principles and practices consistently applied not exceeding ₱5,000,000,000.00.
- (i) Any Lien constituted over the investment of the Issuer in any of its Affiliates, whether such investment is in the form of shares, deposits or advances, to guarantee or secure the obligations of the said Affiliates.
- (j) Any Lien constituted for the purpose of guaranteeing an Affiliate's obligation in connection with any contract or agreement (other than for borrowed money) that has been assigned to such affiliate by the Issuer as part of the Issuer's ordinary course of business.

## 12. Events of Default

The Issuer shall be considered in default under the Commercial Papers and the Trust Indenture in case any of the following events (each an “**Event of Default**”) shall occur and is continuing:

- (a) Payment Default

The Issuer fails to pay when due and payable any amount which the Issuer is obliged to pay to the Commercial Paper Holders under the Trust Indenture and the Commercial Papers, and such failure, if due to causes other than the willful misconduct or gross negligence of the Issuer, is not remedied within five (5) Business Days from receipt by the Issuer of written notice of such non-payment from the Trustee.

(b) Representation/Warranty Default

Any representation and warranty of the Issuer hereof or any certificate or opinion submitted pursuant hereto proves to have been untrue, incorrect or misleading in any material respect as and when made and the circumstances which cause such representation or warranty to be incorrect or misleading continue for not less than fourteen (14) days (or such longer period as the Majority Commercial Paper Holders shall approve) after receipt of written notice from the Commercial Paper Holders to that effect.

(c) Other Default

The Issuer fails to perform or violates any other provision, term of the Trust Indenture and the Commercial Papers, and such failure or violation is not remediable or, if remediable, continues to be unremedied after the applicable grace period, or in the absence of such grace period, after thirty (30) days from the date of occurrence of the said violation with respect to the covenant to maintain the prescribed financial ratio, (particularly a Debt to Equity Ratio of 3:1 and within ten (10) Business Days from the date of the occurrence of said violation, with respect to any other covenant or obligation; provided that, the Events of Default constituting insolvency initiated by the Issuer or closure default, or a violation of a negative covenant shall not be remediable.

(d) Cross Default

The Issuer violates any material term or condition of any contract executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any, law or regulation which violation, if remediable, is not remedied by the Issuer within ten (10) Business Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation shall, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Trust Indenture and the Commercial Papers; provided however that, no event of default shall occur under this paragraph unless the aggregate amount of indebtedness in respect of which one or more of the events above mentioned has/have occurred equals or exceeds ₱500,000,000.

(e) Insolvency Default

The Issuer becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy, which term shall include, but shall not be limited to: (i) filing of a petition in any bankruptcy, reorganization (other than a labor or management reorganization), winding-up, suspension of payment or liquidation proceeding, or any other proceeding analogous in purpose and effect; (ii) appointment of a trustee or receiver of all or a substantial

portion of its properties; (iii) making of an assignment for the benefit of its creditors; (iv) the admission in writing by the Issuer of its inability to pay its debts; or (v) the entry of any order or judgment of any court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization (other than a labor or management reorganization), winding-up, liquidation or appointment of trustee or receiver of the Issuer or a substantial portion of its property or assets.

(f) Judgment Default

Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of ₱500,000,000 or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree or award is due under the applicable law or agreement.

(g) Writ and Similar Process Default

Any judgment, writ, warrant of attachment, injunction, stay order, execution or similar process shall be issued or levied against any material part of the Issuer's assets and such judgment, writ, warrant or similar process shall not be released, vacated or fully bonded within thirty (30) calendar days after its issue or levy.

(h) Closure Default

The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days except in the case of strikes or lockouts or when necessary to prevent business losses or when due to fortuitous events or *force majeure*.

**13. Notice of Default**

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Commercial Paper Holders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as described in the section *Payment Default* in the Terms and Conditions of the Commercial Papers, the Trustee shall immediately notify the Commercial Paper Holders upon the occurrence of such payment default. The existence of a written notice required to be given to the Commercial Paper Holders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days, further indicating in the published notice that the Commercial Paper Holders or their duly authorized representatives may obtain an important notice regarding the Commercial Papers at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

**14. Consequences of Default**

- (a) If any one or more of the Events of Default shall have occurred and be continuing, either the Trustee, on its own or upon the written instructions of the Majority Commercial Paper Holders [whose written instructions/consents/letters shall be verified by the Registrar against the identification documents or the two-dimensional digital copies thereof in its possession], and by notice in writing delivered to the Issuer, with a copy furnished to the Paying Agent and Registrar, or the Majority Commercial Paper Holders, by notice in writing delivered to the Issuer and the

Trustee, with a copy furnished to the Paying Agent and Registrar, may declare the Issuer in default (“**Declaration of Default**”) and declare the principal of the Commercial Papers, [including all accrued interest,] net of applicable withholding taxes, and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, without presentment, demand, protest, or further notice of all kinds, all of which are hereby expressly waived by the Issuer, anything contained in the Trust Indenture or in the Commercial Papers to the contrary notwithstanding. A copy shall be furnished to the Paying Agent who shall then prepare a payment report in accordance with the Registry and Paying Agency Agreement. Thereupon the Issuer shall make all payments due on the Commercial Papers in accordance with the Registry and Paying Agency Agreement.

[The written instructions of the Majority Commercial Papers Holders shall be verified by the Registrar against the identification documents or the two-dimensional digital copies thereof in its possession.]

- (b) This provision, however, is subject to the condition that, except in the case of a Writ and Similar Process Default, the Majority Commercial Paper Holders, by written notice to the Issuer and the Trustee may, during the prescribed curing period, if any, rescind and annul such declaration made by the Trustee pursuant to a consequence of default, and the consequences of such declaration, upon such terms, conditions and agreement, if any, as they may determine; provided that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.
- (c) At any time after any Event of Default shall have occurred, the Trustee may:
  - (i) by notice in writing to the Issuer, require the Registrar and Paying Agent to:
    - (aa) act thereafter as agents of the Commercial Paper Holders represented by the Trustee on the terms provided in the Paying Agency and Registry Agreement (with consequential amendments as necessary and save that the Trustee’s liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of the Trust Indenture in relation to the Commercial Papers and available to the Trustee for such purpose) and thereafter to hold all sums, documents and records held by them in respect of the Commercial Papers on behalf of the Trustee; and/or
    - (bb) deliver all evidence of the Commercial Papers and all sums, documents and records held by them in respect of the Commercial Papers to the Trustee or as the Trustee shall direct in such notice; provided that, such notice shall be deemed not to apply to any document or record which the Registrar and Paying Agent is not obliged to release by any law or regulation; and



- (ii) by notice in writing to the Issuer, require the Issuer to make all subsequent payments in respect of the Commercial Papers to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn, provision (bb) above and the Issuer's positive covenant to pay principal and interest, net of applicable withholding taxes, on the Commercial Papers, more particularly set forth in the Trust Indenture, shall cease to have effect.

In case any amount payable by the Issuer under the Commercial Papers, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest, net of applicable withholding taxes, and other amounts, pay Penalty Interest on the defaulted amount(s) from the time the amount falls due until it is fully paid.

#### **15. Penalty Interest**

In case any amount payable by the Issuer under the Commercial Papers, whether for principal, interest, net of applicable withholding taxes, or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest, net of applicable withholding taxes, and other amounts, pay penalty interest on the defaulted amount(s) at the rate of twenty percent (20%) per annum (the "**Penalty Interest**") from the time the amount falls due until it is fully paid.

#### **16. Payment in the Event of Default**

The Issuer covenants that upon the occurrence of any Event of Default under any of the Commercial Papers shall have occurred and be continuing, and has not been remedied or waived by the Majority Commercial Papers Holders, then, in any such case, the Issuer shall pay to the Commercial Paper Holders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Commercial Papers with interest at the rate borne by the Commercial Papers on the overdue principal, net of applicable withholding taxes, and with Penalty Interest as described above, and in addition thereto, the Issuer shall pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

The Issuer shall reimburse the Trustee all reasonable costs and expenses incurred in connection with enforcing payment of principal and/or interest on the Commercial Papers upon the occurrence of an Event of Default. Notwithstanding any contrary provision, any such costs incurred by the Trustee shall not require the prior approval of the Issuer.

#### **17. Application of Payments**

Any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Trust Indenture and the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first*, to the payment to the Trustee, the Registrar and Paying Agent, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; *second*, to the payment of the Penalty Interest, in the order of the maturity of such

interest; *third*, to the payment of all outstanding interest due on the Commercial Papers, [in the order of the maturity of such interest], *fourth*, to the payment of the whole amount then due and unpaid upon the Commercial Papers for principal, which payment shall be made pro-rata among the Commercial Paper Holders; and *fifth*, the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Commercial Papers shall require the conformity of the Trustee. [For this purpose, the Paying Agent shall deliver to the Trustee a certification of the funds to be applied for payment, and a schedule of payments to be made in accordance with the conditions.]

#### **18. Prescription**

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

#### **19. Remedies**

All remedies conferred by the Trust Indenture and these Terms and Conditions to the Trustee and the Commercial Paper Holders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Commercial Paper Holders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Indenture, subject to the discussion on *Ability to File Suit* in the Terms and Conditions of the Commercial Papers.

No delay or omission by the Trustee or the Commercial Paper Holders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Indenture to the Trustee or the Commercial Paper Holders may be exercised from time to time and as often as may be necessary or expedient.

#### **20. Ability to File Suit**

No Commercial Paper Holder shall have any right by virtue of or by availing of any provision of the Trust Indenture to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest, net of applicable withholding taxes, and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Commercial Paper Holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of Commercial Paper Holders to take up matters related to their rights and interests under the Commercial Papers; (ii) the Majority Commercial Paper Holders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee, for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Commercial Paper Holders, it being understood and intended, and being expressly covenanted by every Commercial Paper Holder with every other Commercial Paper Holder and the Trustee, that no one or more Commercial Paper Holders shall have any right in any manner whatever by virtue of or by availing of any

provision of the Trust Indenture to affect, disturb or prejudice the rights of the holders of any other such Commercial Papers or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all the Commercial Paper Holders.

## **21. Waiver of Default by the Commercial Paper Holders**

The Majority Commercial Paper Holders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Commercial Paper Holders waive any past default, except the events of default defined as a payment default, breach of representation or warranty default, insolvency default, or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Commercial Paper Holders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Commercial Paper Holders shall be conclusive and binding upon all Commercial Paper Holders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Commercial Papers.

## **22. Trustee; Notices**

### **(a) Notice to the Trustee**

All documents required to be submitted to the Trustee pursuant to the Trust Indenture and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	[PNB Trust Banking Group]
Attention:	[Josephine E. Jolejole]
Subject:	[Phoenix Commercial Papers Series [•]]
Address:	[Trust Banking Group – Fiduciary Services Division] [Philippine National Bank] [3F PNB Financial Center President Diosdado Macapagal ] [Boulevard, Pasay City, Philippines]
Facsimile:	[573-4657 / 573-4649]

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Any requests for documentation or certification and other similar matters must be communicated by the Commercial Paper Holder to the Trustee in writing and shall be subject to review, acceptance and approval by the Trustee. Upon such acceptance and approval, the Commercial Paper Holder shall pay to the Trustee upfront a fee of [•] (the “**Activity Fee**”) plus the costs of legal review, courier and the like. The Activity Fee may be adjusted from time to time, at the discretion of the Trustee.

In the absence of any applicable period stated elsewhere in these Conditions, written requests shall be reviewed and, if accepted and approved, addressed by the Trustee within ninety (90)

days from receipt. This period may be extended should the Trustee be unable to review and address the requests for causes not attributable to the Trustee.

(b) Notice to the Commercial Paper Holders

The Trustee shall send all Notices to Commercial Paper Holders to their mailing address as set forth in the Register of Commercial Paper Holders. Except where a specific mode of notification is provided for herein, notices to Commercial Paper Holders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Commercial Paper Holders. The Trustee shall rely on the Register of Commercial Paper Holders in determining the Commercial Paper Holders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication or (iv) on date of delivery, for personal delivery.

The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by Phoenix to the Philippine SEC on a matter relating to the Commercial Papers shall be deemed a notice to Commercial Paper Holders of said matter on the date of the first publication.

(c) Binding and Conclusive Nature

Except as provided in the Trust Indenture, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Indenture, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Commercial Paper Holders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Commercial Paper Holders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Indenture.

**23. Duties and Responsibilities of the Trustee**

- (a) The Trustee is appointed as trustee for and on behalf of the Commercial Paper Holders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Indenture. The Trustee shall, in accordance with the terms and conditions of the Trust Indenture, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Indenture. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Indenture. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Commercial Paper Holders, and to whom the Commercial Paper Holders shall communicate with in respect to any matters that must be taken up with the Issuer.
- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Indenture. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Indenture, and use such judgment and care

under the circumstances then prevailing that an individual of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.

- (c) The Trustee shall submit to the Commercial Papers Holders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Commercial Papers Holders on the property or funds held or collected by the Paying Agent with respect to the character, amount, and the circumstances surrounding the making of such advance; provided that such advance remaining unpaid amounts to at least 10% of the aggregate outstanding principal amount of the Commercial Papers at such time.
- (d) The Trustee may, from time to time, request the Issuer to submit certifications of its officers, reports of its external auditors, and other documents relating to the Issuer's ability to comply with its obligations under the Commercial Papers and the Trust Agreement, as well as to examine such records of the Issuer as may be related to the Issuer's obligations under the Commercial Papers and the Trust Agreement.

The request shall be reasonable, made not less than seventy-two (72) hours prior to the intended date of examination, and shall be in writing addressed to the Issuer and including in reasonable detail the purpose for such request and the intended use of the requested documents or information. The Issuer may require the Trustee, its directors, officers, employees, representatives, agents, partners, consultants, and advisors to hold in confidence such documents and information furnished to the Trustee pursuant to said request or to limit the use thereof for the purpose intended, as stated in the request; provided that such requirement or limitation shall not apply if the same conflicts with the duties and responsibilities of the Trustee under any provision of the Trust Agreement or conflicts with any Law.

- (e) The Trustee shall hold on behalf of the Commercial Papers Holders the Master Certificate of Indebtedness for the total issuance.
- (f) [Unless a fixed period is otherwise specified in the Trust Agreement and in the absence of a period specifically agreed to by the Trustee and the Issuer and in the case of notices required to be sent by the Trustee to Commercial Papers Holders, the Trustee must act promptly in the sending of such notices but in any case shall have a period of not more than thirty (30) days to complete the sending of all such notices in the manner allowed by the Trust Agreement.]
- (g) [Notwithstanding the above, the Trustee, on its own discretion, may send notices or disclose to the Commercial Papers Holders any fact, circumstance or event, which would have the effect of effectively reducing the principal amount of the Commercial Papers then outstanding, including changes in Laws.]
- (h) None of the provisions contained in these Terms and Conditions or this Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

## 24. Resignation and Change of Trustee

- (a) The Trustee may at any time resign by giving thirty (30) days' prior written notice to the Issuer and to the Commercial Paper Holders of such resignation.
- (b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor Trustee by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor Trustee. However, notwithstanding the immediately preceding sentence, in cases where an Event of Default shall have occurred and be continuing, it is the Majority Commercial Paper Holders, not the Issuer, that shall appoint the successor Trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Commercial Paper Holder who has been a bona fide holder for at least six (6) months (the "**Bona Fide Commercial Paper Holder**") may, for and in behalf of the Commercial Paper Holders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor Trustee. Subject to Section (e) below, a successor Trustee must possess all the qualifications required under pertinent laws.
- (c) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days therefrom remove the Trustee concerned, and appoint a successor Trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor Trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor Trustee, any Bona Fide Commercial Paper Holder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor Trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor Trustee. Subject to Section (e) below, a successor Trustee must possess all the qualifications required under pertinent laws.
- (d) The Majority Commercial Paper Holders may at any time remove the Trustee for cause, , and, with prior consultation with the Issuer, except in an Event of Default, appoint a successor Trustee, by the delivery to the Trustee so removed, to the successor Trustee and to the Issuer of the required evidence under the provisions on Evidence Supporting the Action of the Commercial Paper Holders in the Terms and Conditions of the Commercial Papers. For the avoidance of doubt, the Commercial Papers Holders shall have the sole discretion to appoint a successor trustee for the Commercial Papers by vote of the Majority Commercial Papers Holders. Such removal shall take effect thirty (30) days from receipt of such notice by the Trustee.
- (e) Any resignation or removal of the Trustee and the appointment of a successor Trustee pursuant to any provisions of the Trust Indenture shall become effective upon the earlier of: (i) acceptance of appointment by the successor Trustee as provided in the

Trust Indenture; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Indenture (the “**Resignation Effective Date**”); provided however that, until such successor Trustee is qualified and appointed, the resigning Trustee shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor Trustee promptly upon the appointer thereof by the Issuer; provided finally that, such successor Trustee possesses all the qualifications as required by pertinent laws.

## **25. Successor Trustee**

- (a) Any successor Trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as Trustee in the Trust Indenture. The foregoing notwithstanding, on the written request of the Issuer or of the successor Trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor Trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.
- (b) Upon acceptance of the appointment by a successor Trustee, the Issuer shall notify the Commercial Paper Holders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Commercial Paper Holders within ten (10) days after the acceptance of appointment by the successor trustee, the latter shall cause the Commercial Paper Holders to be notified at the expense of the Issuer.

## **26. Reports to the Commercial Paper Holders**

- (a) The Trustee shall submit to the Commercial Paper Holders on or before February 28 of each year from the relevant Issue Date until full payment of the relevant Commercial Paper Series a brief report dated as of December 31 of the immediately preceding year with respect to:
  - (i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Commercial Paper Holders on the date of such report; and
  - (ii) any action taken by the Trustee in the performance of its duties under the Trust Indenture which it has not previously reported and which in its opinion materially affects the Commercial Papers, except action in respect of a default, notice of which has been or is to be withheld by it.
- (b) The Trustee shall submit to the Commercial Paper Holders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Commercial Paper Holders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance;

provided that, such advance remaining unpaid amounts to at least ten percent (10.00%) of the aggregate outstanding principal amount of the Commercial Papers at such time.

- (c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:
  - (i) Trust Indenture
  - (ii) Registry and Paying Agency Agreement
  - (iii) Articles of Incorporation and By-Laws of the Company
  - (iv) Registration Statement of the Company with respect to the Commercial Papers
  - (v) Opinions of the legal counsel with respect to the Issuer and the Commercial Papers

## **27. Meetings of the Commercial Paper Holders**

A meeting of the Commercial Paper Holders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Commercial Paper Holders of any specified aggregate principal amount of Commercial Papers under any other provisions of the Trust Indenture or under the law and such other matters related to the rights and interests of the Commercial Paper Holders under the Commercial Papers.

### **(a) Notice of Meetings**

The Trustee may at any time call a meeting of the Commercial Paper Holders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Commercial Papers may direct in writing the Trustee to call a meeting of the Commercial Paper Holders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Commercial Paper Holders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Commercial Paper Holders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

### **(b) Failure of the Trustee to Call a Meeting**

In case at any time, the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Commercial Papers shall have requested the Trustee to call a meeting of the Commercial Paper Holders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Commercial Paper Holders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.



(c) Quorum

The Trustee shall determine and record the presence of the Majority Commercial Paper Holders, personally or by proxy. The presence of the Majority Commercial Paper Holders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Commercial Paper Holders.

(d) Procedure for Meetings

- (i) The Trustee shall preside at all the meetings of the Commercial Paper Holders, unless the meeting shall have been called by the Issuer or by the Commercial Paper Holders, in which case the Issuer or the Commercial Paper Holders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (ii) Any meeting of the Commercial Paper Holders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Commercial Papers represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Rights

To be entitled to vote at any meeting of the Commercial Paper Holders, a person shall be a registered holder of one or more Commercial Papers or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Commercial Paper Holders shall be entitled to one (1) vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Commercial Paper Holders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

(f) Voting Requirement

Except as provided under the provisions on *Amendment* in the Terms and Conditions of the Commercial Papers, all matters presented for resolution by the Commercial Paper Holders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Commercial Paper Holders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Indenture. Any resolution of the Commercial Paper Holders which has been duly approved with the required number of votes of the Commercial Paper Holders as herein provided shall be binding upon all the Commercial Paper Holders and the Issuer as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Commercial Paper Holders

Notwithstanding any other provisions of the Trust Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Commercial Paper

Holders, in regard to proof of ownership of the Commercial Papers, the appointment of proxies by registered holders of the Commercial Papers, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit. The minutes of each meeting and any resolution made thereat shall be taken by the Registrar.

**28. Evidence Supporting the Action of the Commercial Paper Holders**

Wherever in the Trust Indenture it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Commercial Papers may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Commercial Paper Holders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Commercial Paper Holders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Commercial Paper Holders.

**29. Non-Reliance**

Each Commercial Paper Holder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Commercial Paper Holder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Commercial Paper Holders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

**30. Amendments**

The Issuer and the Trustee may amend or waive any provisions of the Terms and Conditions of the Commercial Papers if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Commercial Paper Holders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Commercial Paper Holders and provided further that all Commercial Paper Holders are notified of such amendment or waiver.

The Issuer and the Trustee may amend the Terms and Conditions of the Commercial Papers with notice to every Commercial Paper Holder following the written consent of the Majority Commercial Paper Holders (including consents obtained in connection with a tender offer or exchange offer for the Commercial Papers) or a vote of the Majority Commercial Paper Holders at a meeting called for the purpose. However, without the written consent of each Commercial Paper Holder affected thereby, an amendment may not:

- (a) reduce the percentage of principal amount of the Commercial Papers outstanding that must consent to an amendment or waiver;

- (b) reduce the interest / discount rate of or extend the time for payment of interest on the Commercial Papers;
- (c) reduce the principal of or extend the Maturity Date of the Commercial Papers;
- (d) impair the right of any Commercial Paper Holder to receive payment of principal of and interest on such Commercial Paper Holder's Commercial Papers on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Commercial Paper Holder;
- (e) reduce the amount payable upon the redemption or repurchase of the Commercial Papers under the Terms and Conditions or change the time at which the Commercial Papers may be redeemed;
- (f) make the Commercial Papers payable in money other than that stated in the Commercial Papers;
- (g) subordinate the Commercial Papers to any other obligation of the Company;
- (h) release any security interest that may have been granted in favor of the Commercial Paper Holders;
- (i) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Commercial Paper Holders;
- (j) make any change or waiver of this Condition;
- (k) affect the rights of some of the Commercial Paper Holders without similarly affecting the rights of all the Commercial Paper Holders; or
- (l) reduce the percentage of the Commercial Paper Holders required to be obtained under the Trust Indenture for their consent to or approval of any supplemental agreement of any waiver provided for in the Trust Indenture, without the consent of all Commercial Paper Holders.

It shall not be necessary for the consent of the Commercial Paper Holders under this condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this condition becomes effective, the Issuer shall send a notice briefly describing such amendment to the Commercial Paper Holders in the manner provided in the paragraph entitled *Notice to the Commercial Paper Holders* in the Terms and Conditions of the Commercial Papers.

### **31. Governing Law**

The Terms and Conditions are governed by and are construed in accordance with Philippine law.

### 32. Venue

Any suit, action, or proceeding against the Issuer with respect to the Commercial Papers or the Terms and Conditions or on any judgment entered by any court in respect thereof may be brought in any competent court in the City of Makati or City of Pasay, and the parties submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment, the Issuer and Commercial Paper Holders expressly waiving other venue.

### 33. Waiver of Preference

The obligation created under the Terms and Conditions of the Commercial Papers shall not enjoy any priority of preference or special privileges whatsoever over any indebtedness or obligations of the Issuer. Accordingly, whatever priorities or preferences that this instrument may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14 of the Civil Code shall be revoked if it be shown that an indebtedness of the Issuer for borrowed money has a priority or preference under the said provision.

### 34. Certain Defined Terms

The following sets forth the respective definitions of certain terms used in this Terms and Conditions of the Commercial Papers. Except as otherwise provided and where context indicates otherwise, defined terms in this Terms and Conditions of the Commercial Papers have the meanings ascribed to them in the Trust Indenture.

- (a) **Affiliate** means any corporation, directly or indirectly controlled by the Issuer, whether by way of ownership of at least twenty percent (20%) of the total issued and outstanding capital stock of such corporation, or the right to elect at least twenty percent (20%) of the number of directors in such corporation, or the right to control the operation and management of such corporation by reason of contract or authority granted by said corporation to the Issuer.
- (b) **Bankruptcy** means, with respect to a Person, (a) that such Person has (i) made an assignment for the benefit of creditors; (ii) filed a voluntary petition in bankruptcy; (iii) been adjudged bankrupt, or insolvent; or had entered against such Person an order of relief in any bankruptcy or insolvency proceeding; (iv) filed a petition or an answer seeking for such Person any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation or filed an answer or other pleading admitting or failing to contest the material allegations of a petition filed against such Person in any proceeding of such nature; or (v) sought, consented to, or acquiesced in the appointment of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person's properties; (b) sixty (60) days have elapsed after the commencement of any proceeding against such Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation and such proceeding has not been dismissed; or (c) sixty (60) days have elapsed since the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person's properties and such appointment has not been vacated or stayed or the appointment is not vacated within sixty (60) days after the expiration of such stay.

- (c) **Current Liabilities** means the aggregate (as of the relevant date of calculation) of all liabilities of the Issuer falling due on demand or within one (1) year, including that portion of Long Term Debt which falls due within one (1) year (but excluding the current portion of any provision for estimated liability for land and property development) and such other liabilities as would be determined as such under the Philippine Financial Reporting Standards.
- (d) **Lien** means any mortgage, charge, pledge, lien, security interest or encumbrance constituted on any of the Issuer's properties, for the purpose of securing its or any of its Subsidiaries' and Affiliates' obligations.
- (e) **Long Term Debt** means the aggregate (as of the relevant date of calculation) of all those component parts of the liabilities of the Issuer which fall due or whose final payment is due on a date more than one (1) year after the relevant date for calculation, exclusive of reserve for land development and deferred credits, i.e., unearned income and/or unrealized gains.
- (f) **Majority Commercial Paper Holders** means the Commercial Paper Holders of more than fifty percent (50%) in principal amount, of the relevant Commercial Paper Series then outstanding.
- (g) **Total Liabilities** means the aggregate (as of the relevant date for calculation) of Current Liabilities and Long Term Debt.
- (h) **Total Stockholders' Equity** means the aggregate (as of the relevant date for calculation) of the par value of the outstanding common stock, preferred stock, capital surplus, retained earnings appraisal surplus arising from past appraisal and any further appraisal surplus arising from subsequent independent certified appraisal of the property, plant and equipment of the Issuer effected in compliance with the Philippine Financial Reporting Standards, and any reserve for expansion projects, less treasury stocks.

## **INDEPENDENT AUDITORS AND COUNSELS**

### **LEGAL MATTERS**

All legal opinion/matters in connection with the offering of the Commercial Papers which are subject of this Offer will be passed upon by Romulo Mabanta Buenaventura Sayoc & de los Angeles for the Lead Underwriter and by Picazo Buyco Tan Fider & Santos for the Company.

### **INDEPENDENT AUDITORS**

The Company's results of operations and financial position have been and will be affected by certain changes to the PFRS, which are intended to further align PFRS with the International Financial Reporting Standards.

The Financial Statements of the Company appearing in this Prospectus have been audited by Punongbayan & Araullo, independent auditors, as set forth in their report thereon appearing elsewhere in this Prospectus.

The Company's audit committee reviews and approves the scope of audit work of the independent auditor and the amount of audit fees for a given year. The amount will then be presented for approval by the stockholders in the annual meeting. As regards the services rendered by the external auditor other than the audit of financial statements, the scope of and the amount for the same are subject to review and approval by the Audit Committee.

The Company's aggregate audit fees for each of the last three fiscal years for professional services rendered by the external auditor were ₱4,648,000, ₱4,247,020, and ₱5,171,630 for 2017, 2016, and 2015, respectively.

There is no arrangement that experts shall receive a direct or indirect interest in the Company or was a promoter, co-manager, voting trustee, director, officer, or employee of the Company.

### **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS**

The Company has not had any changes in or disagreements with its independent accountants/auditors on any matter relating to financial or accounting disclosures.

## INDUSTRY AND COMPETITIVE OVERVIEW

*The information and data contained in this section have been taken from sources in the public domain. The Company does not have any knowledge that the information herein is inaccurate in any material respect. Neither the Company, the Sole Issue Manager and Lead Underwriter nor any of their respective affiliates or advisors has independently verified the information included in this section.*

### PHILIPPINE OIL INDUSTRY

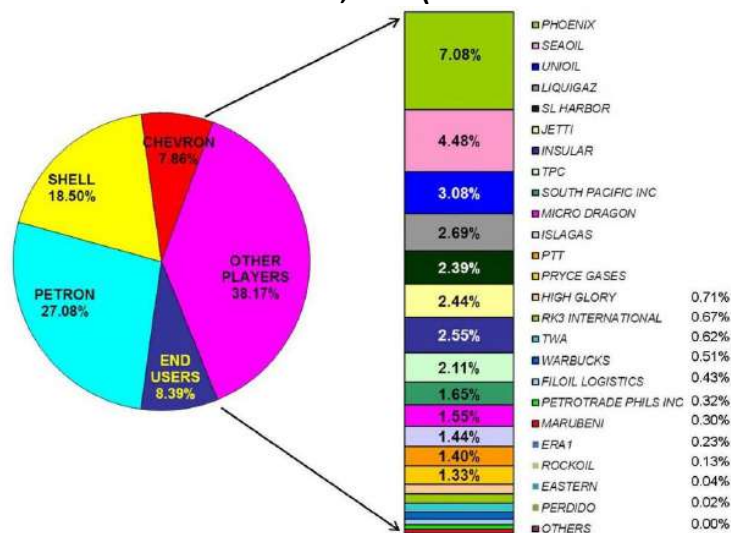
Following the enactment of the Oil Deregulation Law, this enabled the Philippines to have a deregulated business environment. The enactment of the Oil Deregulation Law effectively removed the rate-setting function of the Government through what was then known as the Energy Regulatory Board, leaving the price-setting to market forces. This opened the oil industry to free competition – though dominated by the three major players, Petron, Shell and Chevron, the industry has since then seen the entry of more than 200 other industry market participants.

The entry of the other market participants resulted in increased competition amongst local players leading to better quality products and facilities, improved service at retail service stations, and a shift to a new image of retail service stations which provide amenities (i.e. convenience stores, restrooms, and automated teller machine counters, etc.) within their premises.

The deregulated Philippine downstream oil industry is still currently being dominated by the major players, Petron, Shell, and Chevron, which accounted for a combined 53.4% of the total market share as of June 30, 2018. On the other hand, other industry players which include PTT, Total, Seaoil, TWA Inc., Phoenix, Liquigaz, Petronas, Prycegas, Micro Dragon, Unioil Petroleum Phils. Inc. (“**Unioil**”), Isla Gas, Jetti, Eastern Petroleum, JS Union, JS Phils. Corp., Petrotrade, South Pacific, Marubeni, SL Harbour, Rockoil, RK3 Int’l., Insular, ERA 1, High Glory, Warbucks, Perdido and Filoil Logistics Corp., as well as the end users who imported directly their requirements captured a combined 46.6% of the total market share as of June 30, 2018.

As of June 30, 2018, the Company captured 7.1% of the total market share for petroleum products.

**Market Share as of June 30, 2018 (Total Petroleum Products)**



Source: Department of Energy – Oil Supply/Demand Report (June 30, 2018)

The following activities are characterized under the Philippine downstream oil industry:

- Crude oil Importation from foreign suppliers;
- Refineries as processing and storage of intermediate and refined products;
- Logistic transfers to various bulk plants/depots through tankers barges or the Batangas-Manila pipeline; and
- Refined/finished products from depots to retail outlets and industrial clients via land distribution

## **SUPPLY**

### **Inventory**

As of end-month June 2018, actual crudes and petroleum products inventory closed at 21,844 thousand barrels (“**MB**”) or 46-day supply equivalent; 38 days for crude oil and products in country stocks and 8 days in-transit. This was lower by 12.1% from June 2017’s 24,854 MB or 51-day supply equivalent.

The government continued to enforce the Minimum Inventory Requirement (“**MIR**”) given the continuing risks faced by the downstream oil industry sector such as geopolitical instability and supply delivery problems to areas affected by calamities (e.g. typhoon, flood, earthquake, etc.).

Current MIR for refiners is in-country stocks equivalent to 30 days while an equivalent of 15 days stock is required for the bulk marketers and 7 days for the LPG players.

Further, in response to the on-going rehabilitation of Marawi City, the Department continuously monitors the bulk oil supply status in Mindanao to ensure continuous and adequate supply of petroleum products in the area.

Moreover, when Republic Act No. 10963 or the TRAIN Law took effect on January 1, 2018, the Department issued a directive to oil companies that old stocks (December 31, 2017 inventory) should be sold on the old excise rate or at zero rate tax for diesel product. Hence, the DOE monitored the oil companies’ daily withdrawals of petroleum products on a per depot basis until the old stocks were exhausted to ensure proper implementation of the new tax scheme.

### **Petroleum Product / Ethanol Imports**

First half 2018 petroleum product imports totaled 45,403 MB, a decrease of 6.1% from first half 2017’s 48,348 MB.

The top imported product for the period was diesel oil which dropped by 8.3% from last year’s level. Gasoline imports also decreased by 3.7%. Meanwhile, fuel oil and kerosene/avturbo also fell by 17.8% and 7.7%, respectively. However, LPG import was up by 2.2% vis-à-vis last year’s level.

The other industry players accounted for majority of the product imports with 76.5% of the total imports volume, down by 1.4% to 34,735 MB from first half 2017’s 35,243 MB. The oil majors (Petron, Chevron and Shell) accounted for the remaining 23.5% which declined by 18.6% from last year’s 13,104 MB to 10,668 MB.



The local refiners (Petron and Shell) accounted for 11.4% of the total product imports, which included blending stocks, as against 88.6% share by direct importers.

Product import mix comprised mostly of diesel oil at 39.8%, gasoline at 17.8%, LPG at 15.3%, kerosene/ avturbo at 10.1%, fuel oil at 6.0% and other products at 11.1% share in the total product mix.

Total gasoline import reached 41.1% of gasoline demand while diesel oil import was 51.5% of diesel demand. LPG import on the other hand, was 70.5% of LPG demand. Total product import was 54.3% of the total products demand.

The oil majors' import share in the total demand was 12.8% while the other players' import share was at 41.5%. As for the refiners, their import share in the total demand was 6.2%, while 48.1% was attributed to direct importers.

Meanwhile, a total of 915 MB ethanol was imported for fuel use during the period which grew by 23.9% from 739 MB of last year's level. Republic Act No. 9367 of 2006 mandated that all gasoline to be sold in the country should be E-10 (gasoline with 10% bioethanol content).

## **DEMAND**

### **Petroleum Product Demand**

First half 2018 demand of petroleum products totaled 83,621 MB, an increase of 1.6% from 82,277 MB of first half 2017. This can be translated to an average daily requirement of 462.0 MB compared with last year's level of 454.6 MB.

Compared with prior period figures, diesel oil demand was up by 5.0%. Similarly, demand of LPG and gasoline increased by 10.6% and 2.4%, respectively. However, fuel oil demand dropped by 10.9%.

Product demand mix comprised mostly of diesel oil at 42.0%, gasoline at 23.4%, LPG at 11.8%, kerosene/ avturbo at 10.5%, fuel oil at 5.9% and other products at 5.8% share in the total product mix.

### **Petroleum Product Exports**

Total country's petroleum products exports as of June 30, 2018 rose by 33.2% from 5,920 MB as of June 30, 2017 to 7,888 MB.

Vis-à-vis last year, condensate, the top exported product for the period increased by 43.7%. Gasoline, toluene and mixed C4 exports also rose by 49.8%, 40.8% and 18.7%, respectively. Meanwhile, 782 MB of fuel oil and 192 MB of reformat were exported this year versus nil export of first half last year.

The total export mix comprised of condensate (26.7%); propylene (12.4%); gasoline (11.4%); naphtha (10.7%); pygas (10.4%); fuel oil (9.9%); mixed C4 (7.0%); mixed xylene (4.6%); toluene (3.1%); reformat (2.4%); benzene (1.4%); and LPG (0.1%).

The oil refiners' exports accounted for 55.9% of the total export mix while the remaining 44.1% was accounted to export of other players.

## Crude Oil Exports

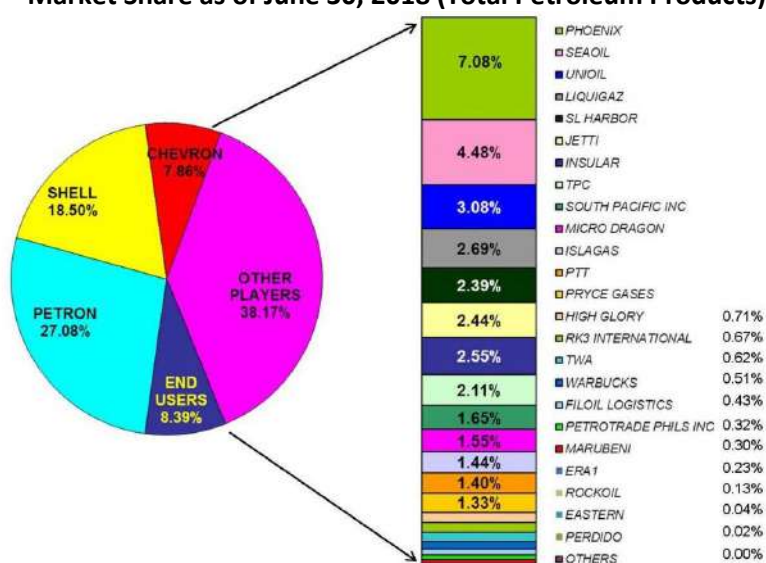
A total of 690 MB crude oil from the Galoc oil field in Palawan was exported during the period which decreased by 1.9% from the prior period's 704 MB.

## MARKET SHARE

### Total Petroleum Products

The major oil companies (Petron, Chevron, and Shell) got 53.4% market share of the total demand while the other industry players which include PTT, Total, Seoail, TWA Inc., Phoenix, Liquigaz, Petronas, Prycegas, Micro Dragon, Unioil, Isla Gas, Jetty, Eastern Petroleum, JS Union, JS Phils. Corp., Petrotrade, South Pacific, Marubeni, SL Harbour, Rockoil, RK3 Int'l., Insular, ERA 1, High Glory, Warbucks, Perdido and Filoil Logistics Corp., as well as the end users who imported directly most of their requirement captured 46.6% of the market.

**Market Share as of June 30, 2018 (Total Petroleum Products)**



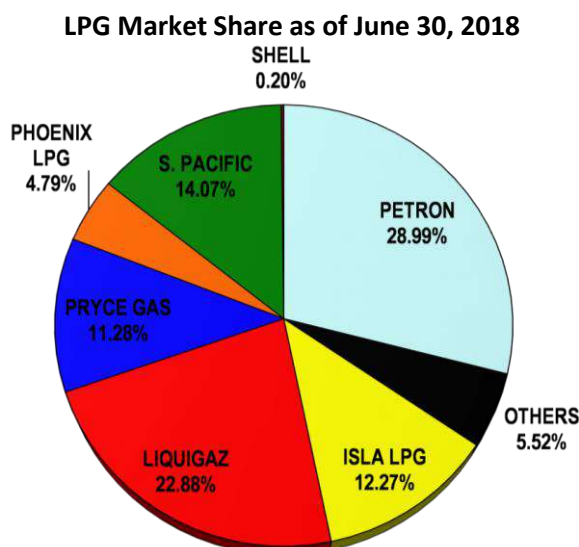
Source: Department of Energy – Oil Supply/Demand Report (June 30, 2018)

Meanwhile, the local refiners (Petron and Shell) captured 45.6% of the total market demand while 54.4% was credited to direct importers/end-users.

## LPG

The other players' market share, with the inclusion of South Pacific in 2016, increased to 70.8%. The remaining 29.2% was credited to the oil refiners.

Petron's share was 28.9% of the total LPG demand while among the other LPG players, Liquigaz got the biggest market share with a 22.9% share. This was followed by South Pacific with a share of 14.1%. Next were Isla Gas and Prycegas with shares of 12.3% and 11.3%, respectively.



*Source: Department of Energy – Oil Supply/Demand Report (June 30, 2018)*

## TRENDS IN THE INDUSTRY

### Tighter Fuel Specifications

The Clean Air Act was enacted in 1999 which required gasoline and automotive diesel to have lower sulfur and benzene content. The Clean Air Act was intended to address growing and looming concerns over the hazardous effects of gas emissions to both the environment and human health. Although local requirements lag behind international standards, local fuel specifications are expected to catch up and meet the stricter standards of developed countries going forward. On January 2016, the DOE implemented Euro IV fuel standard with sulfur contents reduced to 50 parts per million (“PPM”) from its previous 500 PPM specification.

### Alternative Fuels

The Biofuels Act of 2006 calls for the mandatory blending of biofuels of oil companies into their oil products to offer ethanol-blended gasoline products. The Biofuels Act also calls for incentives to biofuels producers. A 5% blend of ethanol is mandated for gas by 2009 and 10% by 2011. For diesel products, a 1% blend of biodiesel was required by 2007 and 2% by 2009.

Taxi owners and operators continue to convert their units to allow the use of LPG instead of gasoline as a means to save on costs and improve their profitability. LPG pumps are slowly increasing in retail service stations of oil companies and new companies are entering the LPG retail service station industry to capture this growing market.

Another alternative fuel being eyed is compressed natural gas (CNG). While Congress has passed the law providing incentives to producers and users of CNG, the necessary infrastructure has not yet been put in place. The planned “mother” and “daughter” natural gas stations of Shell, intended for use by public buses plying the route of Southern Luzon, are not yet operational.

### **Larger Retail Service Stations**

Foreign-owned gasoline stations have put up retail stores following the liberalization of the retail trade industry. Larger retail service stations have since then been seen more regularly with most of them being put up in strategic areas along major expressways. These retail stations would also have retail establishments where other businesses can look to lease or rent space for their own operations and expansion. Among the common tenants of these retail establishments are quick serve businesses including the likes of Jollibee, McDonald's, KFC and Starbucks to name a few. These large retail service stations cater to retail clients who look for gasoline products, snacks and refreshments.

Furthermore, oil companies have put up their own convenience stores alongside their retail service stations, carrying their own brand. Petron has "Treats", Shell has "Select" and Chevron has "StarMart". However, in recent years, these oil companies started to outsource the convenience stores to locators like 7/11, Mini-stop and other local brands.

## DESCRIPTION OF BUSINESS

### COMPANY OVERVIEW

The Company is engaged in the business of trading refined petroleum products, lubricants and other chemical products, operation of oil depots and storage facilities and allied services. Its operations started in Southern Mindanao and soon expanded in the islands of Luzon and the Visayas. Its products and services are distributed and marketed under the *PHOENIX Fuels Life*™ trademark. With a market share of 7.1%<sup>3</sup> of the Philippine oil market as of June 30, 2018, the Company is one of the largest and the only independent oil company in the Philippines that is engaged in all aspects of the local downstream oil industry.

The Company was incorporated in the Philippines on May 8, 2002 under its original name “Oilink Mindanao Distribution, Inc.” On January 11, 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to “Davao Oil Terminal Services Corp.” On August 7, 2006, the SEC approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to “P-H-O-E-N-I-X Petroleum Philippines, Inc.”

On July 11, 2007, the Company was listed on the PSE and became the first petroleum company to be publicly-listed after the enactment of the Oil Deregulation Law in 1998. The Oil Deregulation Law encourages petroleum companies to be listed in the PSE. As of June 30, 2018, the Company has a market capitalization of ₱17.18 billion, based on Phoenix’s common share closing price of ₱12.00 on the same day, the last trading day of the said month.

The Company’s operations are divided between trading, and terminalling and hauling services. Under trading, the Company offers its refined petroleum products and lubricants to retailers and industrial customers. The Company sells its products through its network of retail service stations and has opened a total of 545 as of June 30, 2018. The retail service stations are classified as CODO, which account for 52% of the stations, and DODO, which account for 48% of the stations. For CODOs, the Company buys or leases the land and owns the service station structures and equipment, but will be operated by a third-party dealer. For DODOs, a third-party dealer buys or leases the land, builds the retail service station structure according to Company specifications, leases the retail service station equipment from the Company, and operates the DODOs. Its main areas of retail operations are in Luzon and Mindanao which accounts for 47% and 40%, respectively, of the stations established as of June 30, 2018, while its Visayas operations account for 13% of the network.

The Company’s terminalling and hauling services involve leasing of storage space in its terminal depot, hauling and into-plane services (hauling of Jet A1 fuel to airports and refueling of aircraft) in seventeen (17) airports, including Davao, Cagayan de Oro, General Santos City, Cotabato City, Ozamis City, Pagadian City, Zamboanga City, Dumaguete, Bacolod, Kalibo, Iloilo, Caticlan, Tacloban, Cebu Mactan, Roxas City and San Jose, Mindoro. Since 2005, the Company has been providing all of Cebu Pacific’s terminal, hauling and into-plane requirements for its Mindanao operations. Phoenix currently provides services to Cebu Pacific in a total of 17 domestic airports consisting of one in Luzon, eight in Visayas, and eight in Mindanao.

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<sup>3</sup>in terms of the total market demand of petroleum products based on industry data from the DOE. See the section entitled “*Industry and Competitive Overview*” of this Prospectus for a more detailed discussion.

The Company presently has a nationwide network of depots and retail stations. Its industrial customers include air, land and sea transport companies and other industrial users.

Since its commercial operations in 2005, the Company managed to increase its market share from zero to 7.1% of the Philippine oil market as of June 30, 2018. Phoenix has achieved this on the back of strong compounded annual sales volume growth of approximately 38% since its public listing in 2007.

The Company is registered with the BOI effective November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under the Oil Deregulation Law. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investment Code of 1987. Under its registration, the Company is also entitled to certain tax and non-tax incentives to include income tax holiday for five (5) years from November 16, 2005.

The Company was also registered with the BOI in 2010 and 2012 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under the Oil Deregulation Law for its storage tanks in various locations. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

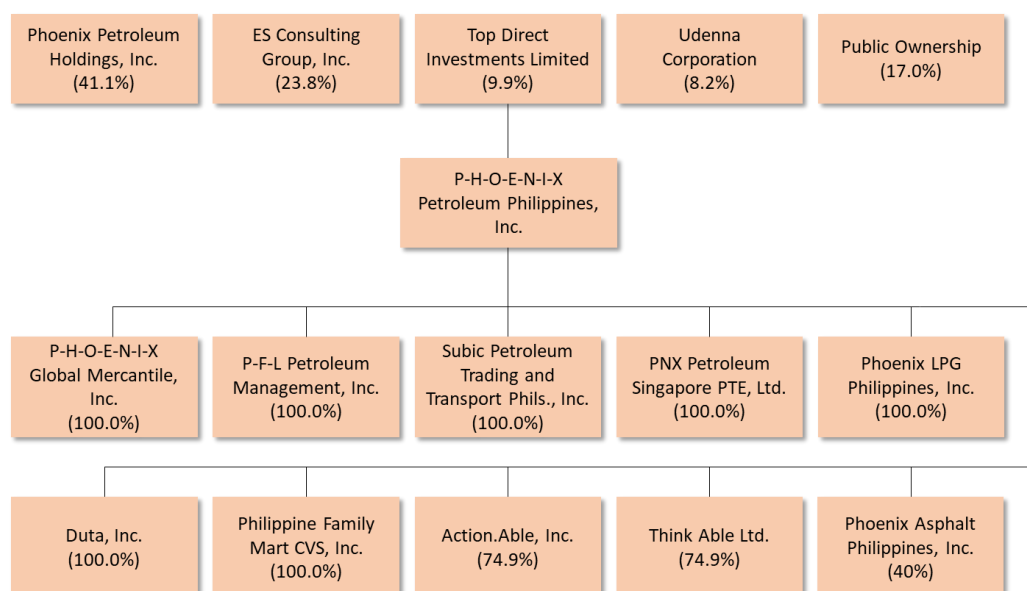
Under its registration, with respect to its transactions relating to its BOI registered investments, the Company is also entitled to certain tax and non-tax incentives. Details of these registrations are as follows:

<b>Location of Project</b>	<b>Date of Registration</b>	<b>Income Tax Holiday</b>	
		<b>Period</b>	<b>Expiry</b>
Calaca, Batangas	Feb 26, 2010	5 years	Feb 25, 2015
Davao Expansion	May 14, 2010	5 years	May 13, 2015
Zamboanga	Nov 25, 2010	5 years	Nov 24, 2015
Bacolod City	May 10, 2012	5 Years	May 9, 2017
Cagayan De Oro City	May 10, 2012	5 Years	May 9, 2017
Cagayan De Oro City Expansion	Nov 24, 2017	5 Years	Nov 24, 2022
Tayud, Cebu City	Sep 9, 2017	5 Years	Sep 9, 2022
Calapan, Mindoro	Oct 12, 2017	5 Years	Oct 12, 2022
Calaca, Batangas Expansion	Dec 22, 2017	5 Years	Dec 22, 2022

## **CORPORATE STRUCTURE**

As of June 30, 2018, the Company is 41.1% owned by PPHI, 23.8% owned by ESGI, 9.9% owned by TDIL and 8.2% owned by UC with the remaining 17% owned by the general public and other shareholders.

The chart below sets forth the ownership structure of the common shares of the Company as of June 30, 2018:



**Phoenix Petroleum Holdings, Inc. (“PPHI”)** was incorporated in the Philippines on May 31, 2006. PPHI’s primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. PPHI’s registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

**ES Consulting Group, Inc. (“ESGI”)** was incorporated in the Philippines on December 29, 2016. ESGI is a consulting firm primarily focused on financial strategy, capital mergers and acquisitions as well as joint ventures. ESGI’s registered office is located at the Centerpoint Building, Garnet Road, Ortigas Center, Pasig City.

**Top Direct Investments Limited (“TDIL”)** was incorporated in the British Virgin Islands. TDIL’s primary purpose is to operate as an investment and holding company. TDIL’s registered office is located at the Vistra Corporate Holdings Centre, Wickams Cay II, British Virgin Islands.

**Udenna Corporation (“UC”)** (formerly known as Philsummit Corporation) was incorporated in the Philippines on March 19, 2002. UC’s primary purpose is to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing. UC’s registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

### Subsidiaries and Joint Ventures

As of June 30, 2018, the Company has nine (9) wholly-owned subsidiaries, namely:

- **Phoenix Global Mercantile Inc. (“PGMI”)** was incorporated in the Philippines on July 31, 2006. PGMI’s primarily engaged in the manufacturing, 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 started commercial operations in 2007 and temporarily ceased its operation in 2008 but has resumed its business in October 2015 through selling of acid oil and coconut fatty acid distillates, both are by-products from manufacturing of coconut methyl ester. PGMI maintains its business address at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

- **PFL Petroleum Management Inc. (“PPMI”)** was incorporated in the Philippines on January 31, 2007. PPMI is primarily engaged in the organization, management, administration, operation, supervision, and marketing of various kinds of service-oriented companies such as petroleum service stations. PPMI serves as a transient operator for the Company’s retail service station awaiting qualified franchisee dealer to operate it. PPMI maintains its business address at 26/F Fort Legend Towers, 3rd Ave. corner 31st Street, Bonifacio Global City, Taguig City, Metro Manila.
- **Subic Petroleum Trading and Transport Phils., Inc. (“SPTT”)** was incorporated in the Philippines on February 20, 2007. SPTT is primarily engaged in the buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. SPTT is duly registered with the Subic Bay Metropolitan Authority and its current application for Certificate of Registration and Tax is submitted as of June 26, 2018 and is deemed compliant pending the renewal of its sublease with the Subic International Hotel Corporation. SPTT imports petroleum products from Singapore, Thailand, and Taiwan and sells petroleum products to companies operating inside Subic Freeport Zone in Zambales. SPTT maintains its business address at Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales.
- **PNX Petroleum Singapore PTE, Ltd. (“PNX SG”)** was incorporated in Singapore on October 30, 2012 and started operations in October 2017. PNX SG is the regional trading arm of the Company and is primarily engaged in the purchase of all types of petroleum products directly from refineries in the region, and the sale and distribution of petroleum products to both local and regional buyers. PNX SG maintains its business address at 350 Orchard Road, #17-05/06 Shaw House, Singapore.
- **Phoenix LPG Philippines, Inc. (“PLPI”)** was incorporated in the Philippines on June 20, 1995 under the name of Petronas Energy Philippines, Inc. (“PEPI”). PLPI is primarily engaged in the buying, selling, storage, distribution and marketing at wholesale of all kinds of goods, including but not limited to liquefied petroleum gas (“LPG”), LPG-related products and other petroleum products. PLPI maintains its business address at Phoenix Petroleum Corporate Headquarters, Stella Hizon Reyes Road, Barrio Pampanga, Lanang, Davao City.
- **Duta, Inc. (“Duta”)** was incorporated in the Philippines on November 9, 1994. Duta is primarily engaged in the business of buying, investing, exchanging, and selling securities of every kind and description, and leasing land. Duta maintains its business address at 15<sup>th</sup> Floor, Citibank Tower, Valero Street, Salcedo Village, Makati City.
- **Philippine Family Mart CVS, Inc. (“PFM” or “Family Mart”)** was incorporated in the Philippines on November 29, 2012 and was fully acquired by the Company on January 11, 2018. PFM is primarily engaged in the business of operating CVS under the trademark “Family Mart” either by direct operations and/or by franchise system in the Philippines, and to conduct business activities related to and in support to the aforesaid CVS platforms including importation and export, advertisement and promotion, and in general, to exercise and perform any and all powers necessary, incidental, or convenient to the business. PFM maintains its business address at the 4<sup>th</sup> floor, Tara Building, 389 Sen. Gil Puyat Avenue, Makati City.



- **Action.Able, Inc. (“AAI”)** was incorporated in the Philippines on May 6, 2015 to engage in the business of selling, leasing or distributing electronic devices to distributors, merchants or retailers for the purpose of digital marketing and/or ecommerce; to engage in the business of providing an outline digital network for the purpose of digital marketing and/or e-commerce accessible through electronic devices.
- **Think Able Ltd. (“TA”)** was incorporated in Hong Kong in 2015 to handle the trademark of AAI.

As of June 30, 2018, the Company also holds a forty percent (40%) ownership interest in a joint venture, namely:

- **Phoenix Asphalt Philippines, Inc. (“PAPI”)** was incorporated in the Philippines on March 23, 2018. PAPI is primarily engaged in the business of selling, importation, marketing, manufacture and storage of bitumen-related products. PAPI maintains its business address at 25/F Fort Legend Towers, 3rd Ave. corner 31st Street, Bonifacio Global City, Taguig City, Metro Manila.

## RECENT DEVELOPMENTS

The following are some of the significant developments involving the Company since December 31, 2017:

On June 5, 2018, the Company signed a memorandum of understanding with CNOOC Gas and Power Group Co. Ltd. to study, plan and develop an integrated liquefied natural gas project in the Philippines which consists of a liquefied natural gas receiving terminal and a gas-fired power plant.. CNOOC Gas and Power Group Co. Ltd. is owned by China National Offshore Oil Corporation, the largest offshore oil and gas company in China and is also one of the largest independent oil and gas exploration and production companies in the world.

On May 25, 2018, the Company signed a Deed of Absolute Sale and concluded the acquisition of up to 74.9% outstanding shares of AAI from Wildlemon, Inc. and certain individuals, and the acquisition of up to 74.9% of the outstanding shares in TA from Seawood Prime Ltd. AAI and TA are the owner of Poslble.net, a two and a half year old digital payment-platform which enables and facilitates financial transactions between a merchant, who avails and uses the service, and customers, who uses the platform to purchase, buy, or pay all kinds of prepaid loads, bills, and money remittances through a single Point of Sale devise.

On January 16, 2018, the Company entered into a JV agreement with TIPCO Asphalt and Mr. Carlito B. Castrillo to set up and incorporate a JV company – PhilAsphalt (Dev’t) Corporation, which was later renamed to PAPI – which is primarily engaged in importing, manufacturing, marketing and distribution of bitumen and bitumen-related products in the Philippines. TIPCO Asphalt is the leading manufacturer and distributor of asphalt products for the repair, maintenance, servicing and construction of road pavements, highways and airport runways in Thailand and the Asia-Pacific region. Its asphalt products are also sold to importers and road contractors in Africa, Australia and North America. Both the Company and TIPCO Asphalt’s percentage of shareholding will be 40% and 20% for Mr. Castrillo. The JV with TIPCO Asphalt is in line with the Company’s objectives of creating growth and opportunities in highly attractive industries, entering markets that are complementary to its core fuel business and are underpinned by strong industry and macroeconomic fundamentals, and expanding its portfolio of petroleum products which will now include bitumen and bitumen-related

products. PAPI will establish its plant in Calaca Industrial & Seaport Park, which is managed by the Company's affiliate, CISC, in Calaca, Batangas.

On January 11, 2018, the Company acquired 100% equity ownership in PFM from its shareholders, namely: SIAL CVS Retailers, Inc., FamilyMart Co. Ltd. and ITOCHU Corporation. PFM is primarily engaged in the operation and sub-franchising of convenience stores under the "Family Mart" name and system, and currently operates 68 convenience store branches nationwide. PFM holds the exclusive Area Franchise Agreement for the use of the name and system "Family Mart" in the Philippines, as granted by its main franchisor, FamilyMart Co. Ltd. The acquisition aims to leverage the Company's existing retail network expertise, supply chain and support services to further expand PFM's convenience store business. For its part, PFM perfectly complements the retail operations of Phoenix, and is poised to support the Company's existing dealer network by enhancing the station outfits and overall end-user experience. With the Family Mart franchise, the Company aims to provide its clients a complete package, or a one-stop-shop, at its retail service stations. Phoenix envisions the expansion of the Family Mart franchise to at least 220 stores within the next five years, both on a stand-alone basis and alongside the Company's dealerships. The transaction was approved by the PCC on January 3, 2018.

## COMPETITIVE STRENGTHS

The Company's competitive strengths have made it the leading independent player and the 4<sup>th</sup> largest oil company in the Philippines<sup>4</sup>:

- **Largest independent oil player with excellent brand recall.** Phoenix is currently the largest independent player in the Philippine downstream oil industry with a total market share of 7.1% as of June 30, 2018. The three largest local petroleum companies, consisting of multi-national players Petron, Shell, and Chevron, constitute a cumulative market share of 53.4% as of the same period. While total volume sold locally has steadily grown over the years, this aggregate figure has been contracting gradually year on year (from 60.9% in 2014 to 53.4% as of June 30, 2018) as the independent players, led by Phoenix and Seaoil, continue to employ aggressive station expansion and advertising strategies in order to accelerate and compound growth.

Phoenix aims to remain top-of-mind with target retail consumers via forays into campaigns with heavy exposure to its target market such as operating a Philippine Basketball Association franchise, ongoing support for racing teams and events, complementary TV and radio placements, and enticing gas promos capitalizing on tie-ups with other household brands such as the Philippine Basketball Association, Ultimate Fighting Championship, and Go Hotels. In February 2018, the Company launched a nationwide marketing campaign for its upgraded fuels powered by Phoenix PULSE Technology, an innovative formulation with advanced cleaning and protection properties for enhanced power and acceleration. These activities, coupled with numerous corporate social responsibility programs focusing on health, environment, and education, have resulted in the resounding support from customers and franchisees alike, fueling the Company's product sales and rapid branch expansions.

- **Rapid and sustainable network expansion.** Phoenix continues to focus on rapidly expanding its station network to capture a bigger retail market share by improving the dealer and end-user experience. From 20 stations in 2006, the Company has grown its station network to 545

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<sup>4</sup>As of June 30, 2018.

operating retail stations as at June 30, 2018. These are distributed nationwide with about 47% in Luzon, 13% in Visayas, and 40% in Mindanao, and cater to a 48% retail and 52% institutional client mix.

The Company focuses on initiatives that result in increased demand for franchises from existing and new owners alike, thus accelerating its network growth.

Phoenix's dealership program is centered on providing fast and attractive returns on investment via the construction of no-frills right-sized stations. This simple yet effective model ensures shorter market launch timetables for dealers, enabling both the Company and dealer to generate sales ahead of competitors. This approach lowers barriers for entry to new franchisees, fast-tracks payback period, and builds loyalty with the dealer-business partners.

In order to widen its range of product offerings to dealers, the Company has recently introduced the option to construct one-stop shop type stations. These upgraded stations, which provide a greater offering of amenities, convenience stores, and specialty shops over the base model, enhance the end-user experience for motorists. Top quick-serve restaurants such as Jollibee, Chowking, McDonald's, and Shakey's, in addition to 62 other active locators that can be found in these bigger stations generate non-fuel revenues and help improve foot traffic.

The Company, through its recent acquisition of the Family Mart franchise, is constantly on the lookout to add further synergies to its core brand in order to upgrade the end-user experience and present a wider array of packages to franchisees.

The Company also offers loyalty programs that complement its retail business. On April 26, 2018, the Company launched the Phoenix RCBC Bankard Mastercard, a lifestyle credit card which offers exclusive benefits for motorists and points for rewards.

- **Strategic import terminal, depot and station locations.** Phoenix owns, leases, or operates 4 import terminals and 6 storage depots that service the requirements of its nationwide network of dealers and commercial clients. These terminals and depots are deliberately located near ports to allow for convenience of importation shipments given the challenges relating to the Philippine archipelago.

The Company also provides support when vetting potential location for its new stations through extensive market research. This details foot traffic and profitability studies to gauge the potential of a new station. Phoenix also ensures that stations are strategically distanced from each other to maximize revenue potential and station presence between stations and minimizing cannibalization among stations.

The Company intends to build its depot and station network further to expand its strategic reach and widen coverage of its customers and locations.

- **Integrated supply chain and logistics infrastructure.** The Company employs an integrated supply chain approach allowing the Company to ensure the availability of its fuel products to its depots and stations nationwide, and to maximize cost savings through the value chain. The Company benefits from synergies with its affiliate company, CSC, to enjoy seamless importation and transport nationwide. The Company's operations are complemented by an integrated network of 10 terminals and depots, and 545 operating retail stations nationwide to enhance the reliability of Phoenix stations.

Phoenix purchases its fuel products from Singapore and then taps CSC's tankers to ferry the products to Phoenix's various port depots. From the depots, fuel products are hauled by the Company's 67 trucks to stations. To further eliminate friction costs and outsource trading expertise to Singapore, the Company recently established PNX SG in order to fully service its fuel importation requirements. This also provides the Company the ability to broaden its demand base, potentially tapping into neighboring countries by supplying to parties other than Phoenix.

- **Seasoned management team of industry experts.** Phoenix is led by a team of experts with over 20 years of experience in the petroleum industry. The Company currently operates with a lean and dynamic organization, which enables faster decision-making and faster response time. This allows Phoenix to act quickly on acquisition opportunities as well as dynamic pricing adjustments. Over the years, the Company has thoroughly professionalized management in its organization to enable the top executives and senior management to focus more on the big picture strategies while the team carries out the nimble execution of these plans.

## **BUSINESS STRATEGY**

The Company continues to expand in other areas by building on its existing business model and by improving the alignment of its frontline revenue units with the logistics and other support areas of the organization. The Company is cognizant of the need to enhance further its profit-oriented and cost-effective approach and maintains a highly responsive organization. Its strategy focuses on the following elements:

- **Brand strengthening.** In an industry dominated for decades by strong multinational brands, the Company is focused on strengthening its recall among consumers as the brand of choice of motorists and commercial users. The Company continues to build its brand through major marketing activities such as mass media placements, endorsements, participation in trade expositions and sponsorship of and participation in major sporting events, such as the Phoenix Fuelmasters Team in Philippine Basketball Association, that appeal to the target market. In February 2018, the Company launched a nationwide marketing campaign for its upgraded fuels powered by Phoenix PULSE Technology, an innovative formulation with advanced cleaning and protection properties for enhanced power and acceleration. The Company's increasing advertising spend and marketing budget to build brand equity complement its investments in retail and logistics infrastructure.
- **Continue strategic retail network expansion.** The increase in retail presence in viable trade areas allows the Company to increase its assured base volume of fuel sales. The retail network expansion likewise enhances the market for the Company's lubricants. A growing base volume for retail fuels also provides the Company with greater flexibility in transacting fuel importations with regional traders at more advantageous terms. The Company believes it has developed the competencies in network planning and operations necessary for efficiently managing the growth of its retail business.

As of June 30, 2018, the Company has established 545 retail stations throughout the Philippines of which 258 are in Luzon, 70 in Visayas and 217 in Mindanao.

The Company continues to expand its retail stations throughout the Philippines in 2018. The related expansion and strengthening of its depot, terminalling and distribution facilities will support the implementation of this business plan.

In line with the expansion of its retail service network, the Company continues to develop and strengthen its retail network management system to support its retail network expansion program in collaboration with dealers and franchisees. The retail network expansion is seen to likewise enhance the market for the Company's lubricants and specialties segment.

The Company's acquisition of convenience store operator PFM in January 2018 is seen to perfectly complement both existing and future retail stations and extend the Company's reach through the independent network of Family Mart convenience stores. The Company believes that it has developed the competencies in network planning and operations necessary for the efficient management and growth of its overall retail business.

- **Expand its integrated supply network.** The Company continues to make strategic investments in storage and transportation to support its retail network expansion program, and the broadening of its commercial customer base. Regional storage facilities will be required where the scale of the prospective retail network growth justifies the investment. Depots pay for themselves in terms of, among other things, savings in freight and handling costs, better aggregation of bulk fuel procurements and faster response time (and incremental profit margin opportunities) to upswings in trade area demand, especially for wholesale and commercial customers. Phoenix will continue to maintain an aggressive position on both the expansion of its strategic depot facilities and on growing its transport and logistics network, which the Company believes are keys to achieving operational efficiencies while increasing petroleum sales volumes.
- **Focus on the direct importation of petroleum products.** In October 2017, the regional trading arm of Phoenix, PNX SG, started its operations. PNX SG was established to ensure the continuous importation supply of its petroleum products. As the Company imports almost 100% of its refined petroleum products, PNX SG has been established as the regional trading hub for the Company's various petroleum requirements, which it sources from a number of foreign suppliers. By diversifying its requirements to multiple suppliers, the Company believes that this provides them much greater pricing flexibility and stability of supply. Aside from diversifying supply sources, importations yield higher gross profit margins due to the multiplicity of price-competitive offshore supply sources.
- **Strengthen the jet fuel trading & service segment.** The Company markets itself as the logistics partner of choice for the leading domestic airlines. As the exclusive logistics partner of Cebu Pacific in Mindanao for the last 13 years, the Company also expanded its business with Cebu Pacific in Luzon and the Visayas, where it likewise services Cebgo. Phoenix has built a track record of delivering fast and reliable service and quality products that are compliant to stringent industry standards. The Company believes that its good reputation that it has successfully built would bode well in securing key future contracts with other domestic/international airlines.
- **Pursue strategic synergistic acquisitions.** On January 16, 2018, the Company entered into a JV agreement with TIPCO Asphalt and Mr. Carlito B. Castrillo to set up and incorporate a JV company – PhilAsphalt (Dev't) Corporation, which was later renamed to PAPI. The JV is in line with the Company's objective of entering markets that are complementary to its core fuel

business, and will allow Phoenix to expand its portfolio of petroleum products to include bitumen and bitumen-related products.

On January 11, 2018, the Company acquired full ownership in PFM, which currently operates a network of 68 convenience store branches under the “Family Mart” trademark nationwide. The acquisition of PFM perfectly complements the retail operations of Phoenix, and is poised to support the Company’s existing dealer network by enhancing the station outfits and overall end-user experience. Phoenix envisions the expansion of the Family Mart franchise to more than 220 stores within the next five years, both on a stand-alone basis and alongside the Company’s dealerships.

On August 14, 2017, the Company acquired PEPI, which has subsequently been renamed to PLPI. At the time of its acquisition, PLPI was the second largest LPG marketer in the Visayas and Mindanao regions and ranks sixth nationwide. PLPI is currently expanding its operations in Luzon with the onboarding of new dealers and establishing of supply chains. The strategic acquisition marks the entry of the Company into the fast-growing LPG market and expands the Company’s petroleum portfolio to include LPG, allowing Phoenix to cement its leading position among the country’s independent oil players. The PCC approved the transaction on August 3, 2017.

Phoenix continues to seek other potential retail acquisition opportunities that can provide valuable synergies with its existing brand and product portfolio.

- **Building financial strength.** Realizing that financial strength is a critical success factor in the fulfillment of its strategies and plans, the Company increased its equity capital from ₱194 million in 2006 to ₱12.0 billion in 2017. As of June 30, 2018, shareholder’s equity amounted to ₱12.8 billion. The Company will continue to take advantage of the current liquidity in the financial and capital markets to improve its financial condition by lowering its average cost of capital.

## BUSINESS

The Company’s two main business lines are trading petroleum and other chemical products on a wholesale basis, as well as terminalling and hauling services, which contributed ₱44.05 billion and ₱374.56 million to gross revenues respectively for Fiscal Year 2017. The Company offers refined petroleum products, lubricants, and other chemical products to retail and industrial customers under the *PHOENIX Fuels Life™* brand name. Terminalling is a complementary service that involves the storage of these petroleum products, which consist mainly of gasoline, diesel, and other petrochemical products. Hauling, likewise a support service, entails the transport and provision of fuel to Phoenix’s industrial customers.

### Trading

#### *Retail Trading*

The Company’s products are sold through its network of retail service stations that total to 545 as of June 30, 2018. These various retail service stations are classified either as CODOs or DODOs.

In a CODO retail service station, the Company provides and establishes the station itself including the site and the equipment (storage tanks, dispensing pumps, pylon, signage, and other equipment

necessary to run the retail service station) and supply of petroleum products. The current standard CODO dealership agreements generally have a term of five (5) years, renewable for another five (5) years. The terms of the DODO dealership agreements vary but are generally for a term of five (5) to ten (10) years. CODO retail stations are normally established in locations where the Company sees the need to construct larger retail stations based on local market evaluation, wherein existing dealers cannot afford the initial outlay for construction.

In a DODO retail service station, the dealer provides the site and builds the required civil structures based on the Company's site selection criteria and station design standards. All necessary equipment and supply of petroleum products are provided by the Company. The terms of the DODO dealership agreements vary, but are usually between five (5) to ten (10) years. In both classifications, the Company is paid a franchise fee.

On May 23, 2018, PPMI and PER Petroleum Corp. ("PER") entered into a joint venture agreement with PER Petroleum Corp., under the terms of which both parties agreed to incorporate a corporation to be called Phoenix Southern Petroleum Corp. ("PSPC"). PSPC will be organized to buy and sell on retail basis refined petroleum, LPG, various kinds of lubricants, car care products, and such other petroleum products, and to operate, manage and carry out gasoline retail stations. The shareholdings of PPMI and PER in PSPC shall be 51% and 49%, respectively. Under the terms of the joint venture agreement, PSPC will enter into an area franchise agreement with the Company for purpose of operating a network of gasoline service station in the Bicol region.

The table below shows the growth in the Company's retail service stations from year ended 2015 to June 30, 2018:

REGION	2015		2016		2017		June 30, 2018	
Luzon	193	43%	216	43%	250	47%	258	47%
Visayas	56	12%	73	14%	65	12%	70	13%
Mindanao	205	45%	216	43%	215	41%	217	40%
<b>TOTAL</b>	<b>454</b>	<b>100%</b>	<b>505</b>	<b>100%</b>	<b>530</b>	<b>100%</b>	<b>545</b>	<b>100%</b>

CLASSIFICATION	2015		2016		2017		June 30, 2018	
CODO	217	48%	261	52%	279	53%	286	52%
DODO	237	52%	244	48%	251	47%	259	48%
<b>Total</b>	<b>454</b>	<b>100%</b>	<b>505</b>	<b>100%</b>	<b>530</b>	<b>100%</b>	<b>545</b>	<b>100%</b>

#### *List of Fuel Products and Lubricants*

The Company offers a wide range of petroleum products to cater to the needs of all customers. In February 2018, the Company launched additional products, such as Phoenix PULSE Technology to include in its range of offerings. PULSE is a new petroleum additive for the Company's gasoline and diesel fuel products and aims to provide advanced cleaning and protection properties, and enhanced power and acceleration for users.

Listed below are the different *PHOENIX Fuels Life*™ products offered by the Company:

Fuels	
<b>Diesel</b>	A low-sulfur product whose carbon content is no more than 2% sulfur
<b>Premium 98</b>	An environment-friendly premium gasoline with an octane rating of 98. Restores lost engine performance.

<b>Premium</b>	An environment-friendly premium gasoline with an octane rating of 95.
<b>Regular Gasoline</b>	An environment-friendly gasoline with an octane rating of 91
<b>Kerosene</b>	Kerosene for use in cooking and lighting.
<b>Jet A-1</b>	Aviation fuel specifically described as Jet A: AFQRJOS Issue (ASTM D 1655-06 or EF STD 91-91 Issue 5, amended March 2006) commonly used by commercial airlines and general aviation.
<b>LPG</b>	LPG in cylinders to both household and commercial customers, and in bulk to industrial customers.
<b>Lubricants</b>	
<b>Phoenix Acceler8 Gasoline Engine Oil SAE 20W-40</b>	A premium quality multi-grade engine oil formulated to provide superior lubrication to both gasoline and diesel engines in light-duty service requiring API SG/CF performance standards.
<b>Phoenix XHD Diesel Engine Oil SAE 40</b>	A high performance, single grade, heavy duty diesel engine oil, specially formulated to provide premium quality service in both diesel and gasoline engines requiring API CF/SF performance standards. Formulated with advanced dispersant technology to resist oil thickening by minimizing sludge formation and effectively keeps particles in suspension to extend oil filter life.
<b>Phoenix Cyclomax4T SAE 20W-</b>	A premium quality 4-stroke engine oil designed to provide excellent engine protection and ensure dependable transmission and clutch protection.
<b>Phoenix 2T MAX</b>	A high quality two-stroke motorcycle oil which exceeds JASO FB specifications, designed for use in tricycles and scooters.

### *Retail Franchising*

The Company offers franchising options, through dealership agreements, that provide accredited partners the right to operate Phoenix retail gasoline stations and the benefit to use the Company's retail operations and management system. When setting-up new stations, the Company requires a total operating area of at least 800 to 1,000 square meters, depending on economic sense, inclusive of a 30-meter frontage. These stations should likewise be located along highways or main thoroughfares to maximize healthy foot traffic and revenue potential. Generating the most volume-driven profit is the main focus of the area selection process to ensure that potential dealers are given enough incentive to invest.

Potential dealers undergo a similarly stringent assessment process wherein viable partners are selected based on their financial capability, business acumen, and character. The Company selects its dealers by forming a dealership selection panel that is composed of representatives from various departments of the Company such as Sales, Legal, and Finance.

Following these processes will safeguard the sustainability of Phoenix's growth plans of 50 to 80 stations per year over the next 5 years.

In support of its franchisees, the Company provides the following assistance to its business partners:

#### *Pre-Operations*

- Site evaluation assistance and station lay-out assistance
- Pre-opening and start-up assistance

#### *Operations*

- Provision of station equipment (pumps, tanks, and signages)
- Operations manual
- Technical training
- Continuous research and product development
- Continuing visits, guidance and business evaluation support



### *Marketing*

- Use of Phoenix brand, system and design
- Local marketing and promotional assistance
- Sales territory protection

### *Commercial and Industrial Trading*

The Company presently services the fuel requirements of large industrial accounts in different industries throughout the Philippines. These include the air, land and sea transport sectors (Cebu Pacific, Cebgo, 2Go, Magsaysay Lines, JAC Liner, CLC, Trans-Asia Shipping), banana and pineapple plantations (Unifrutti Group of Companies, Sumifru Philippines Corp. and Lapanday Group of Companies), mining companies (Adnama Mining, Carrascal Mining, Apex Mining, Nickel Asia), the power sector (Davao Light, PSALM, Napocor, Meralco, Aboitiz Power, Cebu Private Power Corporation, East Asia Utilities Corporation, Western Mindanao Power Corporation), the manufacturing sector (Steel Asia, Century Pacific) and the construction and property sectors (DMCI, Ayala Land, Inc.). The products are usually delivered to the respective areas of operations of the client. However, for high-volume accounts, the Company sets-up its own pump station within the clients' area of operations.

### **Terminalling and Hauling Services**

The Company's terminalling and hauling services involve leasing out storage space at its terminal depots, hauling Jet A1 fuel to airports and into-plane services such as aircraft refueling. These include airports in Davao City, General Santos City, Cotabato, CDO/Iligan Laquindangan, Butuan, Zamboanga, Ozamiz, Pagadian, Dumaguete, Bacolod, Kalibo, Iloilo, Caticlan, Tacloban, Mactan, San Jose Mindoro, and Roxas City. The Company has been providing Cebu Pacific's terminalling, hauling and into-plane requirements for its Mindanao operations since 2005. Phoenix currently provides services to Cebu Pacific in a total of 17 domestic airports – one in Luzon, eight in Visayas, and eight in Mindanao.

The Company's oil depots are strategically located throughout the Philippines to address its nationwide operations and client base. As of June 30, 2018, the Company had a total depot storage capacity of 338 million liters and plans to increase this figure to 390 million liters by the end of 2018.

Each of these depots has supplementary port facilities to accept sea-going fuel tankers. This allows the Company to directly receive importations into its depots, minimizing the need to transport fuel by land from remote ports to the depots. These port facilities provide the Company with the flexibility to efficiently transfer fuel in between depots should the need arise.

### *Phoenix Depot Locations (Existing and Planned Capacities)*

<b>Capacity (in million litres)</b>	<b>June 30, 2018 (Existing)</b>	<b>2018 (Additional)</b>	<b>Total</b>
<b>Import Terminals</b>			
Calaca, Batangas	117.00	16.00	133.00
Davao City	40.00	-	40.00
Cagayan de Oro	81.00	-	81.00
Subic	42.00	-	42.00
<b>Sub-total (Terminals)</b>	<b>280.00</b>	<b>16.00</b>	<b>296.00</b>

<b>Depots</b>			
Zamboanga	14.00	-	14.00
Cebu (old)	12.00	-	-
Cebu (Consolacion)	-	18.30	18.30
Bacolod	10.00	-	10.00
Aklan	8.00	-	8.00
Mindoro	5.00	-	5.00
General Santos City	9.40	17.18	26.58
<b>Sub-total (Depots)</b>	<b>49.00</b>	<b>35.48</b>	<b>72.00</b>
<b>TOTAL CAPACITY</b>	<b>338.40</b>	<b>51.48</b>	<b>389.88</b>

### Product Supply & Importation

The Company imports almost 100% of its petroleum requirements from a number of foreign regional sources, including its wholly-owned subsidiary PNX SG. The Company imports its refined petroleum products from neighboring Asian countries such as Taiwan, Singapore, China, Korea and Thailand. The Company believes that the larger number of offshore suppliers allows for much greater pricing flexibility and stability of supply. The Company is not dependent on a single or limited number of suppliers for its supply of products.

Importations are conducted mainly through the issuance of letters of credit, while domestic purchases are conducted through invoices. Products are purchased based on the prevailing domestic wholesale price or on the basis of the average MOPS plus an agreed premium. To maintain flexibility in supply, the Company does not maintain any long-term supply contracts with its major suppliers. Imported products are offloaded directly at the Company's depots, which have port facilities of their own to accommodate fuel tankers. The Company currently does not have any hedging transactions for its importation requirements.

### Product Distribution

The Company's depots and terminals have receiving facilities and multiple product storage tanks for liquid fuels. From its oil depots, products are distributed to the various retail service stations and direct consumer accounts using company-owned and third-party tanker trucks, and a variety of smaller delivery vans & pick-ups for lubricants.

The Company also currently uses shipping vessels owned by CSC, an affiliate of the Company, for the transportation of petroleum products from the supplier's terminal to the Company's importation terminals in Davao, Cagayan De Oro, Subic, and Batangas. The Company also uses shipping vessels of CSC as well as other third-party vessels for trans-shipments to other depots within the Philippines. With this easy access to critical logistical support, potential risks of supply disruptions due to scarcity of sea vessels are minimized.

### Marketing

The Company has continued to improve and refine its marketing team, which is presently manned by the top professionals in the field. Retail territory managers are primarily responsible for prospecting suitable locations and dealers. They also handle business dealings and maintain business relationship with the dealers as well as audit compliance with the Company's standards.

On the other hand, commercial accounts managers are responsible for developing and maintaining business relationship with all other accounts except for retail station dealers.

Lubes accounts managers handles high street and lubes distributor accounts for lubricants, chemicals and other car care products.

Retail engineers attend to the logistical needs of retail service stations while the equipment maintenance group services the maintenance needs of the retail service stations and commercial accounts.

### **Integrated Supply Network**

The Company has established and continues to strengthen an integrated supply network that encompasses importations, terminals, storage depots, lorries, delivery vans, time-chartered vessels and retail service stations to service the requirements of its customers in a seamless and cost-effective manner.

The Company's moves to strengthen its supply network include the following:

- **Expanding both the geographical distribution and capacity of its storage terminals.** The Company has established storage terminals throughout the country in line with the nationwide expansion of its retail network. From a storage capacity of 167.5 million liters by the end of 2011, the Company has since then increased its total storage capacity to 338 million liters by June 30, 2018 and is on track to increase this to 390 million liters by the end of 2018. These additional storage capacities will support the Company's continued expansion of its retail stations.
- **Expanding its retail service station network.** The Company is targeting to expand its retail service station network by 50 to 80 stations per year.
- **Strengthen its hauling operations.** The Company has a fleet of lorry trucks, and refueler trucks and bridging tanks to transport fuel to its retail stations, industrial customers and, in the case of refueler trucks and bridging tanks, for its into-jet operations. The Company will continue to increase its fleet as its customer base grows to ensure timely delivery of its products.
- **Improving integrated management systems and software.** The Company recently upgraded its enterprise resource planning to an SAP A1 system and has since invested in an integrated customer relationship management system. It also continues to roll out a 'point-of-sale' system that will enable it to record sales on a real-time basis, thereby allowing more efficient management of inventory and deliveries.
- **Securing long-term affreightment contract with affiliates.** The Company is currently working in tandem with affiliate CSC under a long-term basis for its major shipment from foreign suppliers as well as its local trans-shipments to depots strategically located in various parts of the country. This assures the Company of and uninterrupted inventory delivery not only to its clients but to the Company's various depots that support its retail and commercial network.

## **COMPETITION**

The Company's main competitors are the major players in the downstream oil industry namely, Petron, Shell and Chevron and the local independent players such as Seaoil and Unioil. While the three aforementioned major players control a combined 53.4%<sup>5</sup> of the total Philippine market as of June 30, 2018, the Company has grown from zero market share in 2005 to 7.1%<sup>3</sup> of the total Philippine market as of the same period.

See the section entitled "Industry and Competitive Overview" of this Prospectus for a more detailed discussion on the trends in the Philippine downstream oil industry.

The Company competes with other players in the industry in terms of pricing, quality of service and products and strategic locations of its retail service station network. The Company believes that its cost-effective approach of doing business, focus on brand building and its integrated supply network, among other things, enables it to be competitive in its target market.

## **DEPENDENCE ON DEALERS**

### **Dealership Network**

The Company's products are sold through its network of retail service stations numbering 545 as of June 30, 2018. However, the Company is not dependent upon a single or few customers, the loss of any or more of which would have a material effect on its financial condition and results of operations.

### **Dealership Agreements**

For the operation of retail service stations, the Company enters into dealership agreements with its dealers, the pertinent terms of which are as follows:

#### **Term**

The current standard dealership agreements are effective for a period of five years, renewable for another five years at the option of the Company.

#### **Appointment of Dealer**

In consideration of the compliance by the dealer with the requirements of the dealership agreement, the Company grants to the dealer the right to operate a retail service station and use the equipment and the Phoenix System developed by the Company. In selecting a dealer, the financial capability, business acumen and character of a prospective dealer are the main criteria in qualifying a dealer. The Company selects its dealers through a dealership selection panel composed of representatives from various departments in the Company such as sales, legal and finance.

The Company provides and installs storage tanks, dispensing pumps, pylon signage and other equipment to operate the system which will be its equity, among others, while the dealership agreement is in force.

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<sup>5</sup>in terms of the total market demand of petroleum products based on industry data from the DOE. See the section entitled "Industry and Competitive Overview" of this Prospectus for a more detailed discussion.

### **Training and Assistance**

The Company makes familiarization training courses available to the dealer and his/its employees. In addition, for the first ten days of the first month of operation of the dealer's facility, the Company assigns one of its representatives to the facility, at the Company's expense, to assist the dealer in facilitating the opening of the retail service station. During this period, such representative will also assist the dealer in establishing and standardizing procedures and techniques essential to the operation of the station and shall assist in training personnel.

The dealer may be required to attend refresher or training sessions and dealership meetings with the Company at such duration and frequency as the Company may determine.

### **Operations Manual**

During the term of the dealership agreement, the Company loans to the dealer a copy of the operations manual containing reasonable, mandatory and suggested specifications, standards, operating procedures and rules prescribed from time to time by the Company for the operation of the stations and information relative to other obligations of the dealer under the dealership agreement and the operation of its facility.

### **Advertising and Promotions**

The dealer is required to fully participate in all marketing, sales promotion, advertising and other incentive programs suggested, allowed and may be initiated by the Company for its retail stations. The dealer shall pay the Company an annual advertising and promotions fee.

All advertising and promotion programs of the dealer for the station over and above programs and activities of the Company shall be subject to the Company's approval, and the dealer shall have no right to use any Company identification or advertising without the Company's consent.

### **Standards of Quality and Performance**

The dealer agrees to purchase petroleum products only from the Company and sell only petroleum products from the gasoline retail station. The dealer further agrees that should he purchase petroleum products from any other source, he is liable to pay a fine of ₱1.0 million per delivery from unauthorized suppliers.

The retail service station shall at all times be under the direct, on-premises supervision of the dealer and he shall spend at least four (4) hours daily in the station and, during his absence, be represented by a trained and competent employee acting as supervisor.

### **Defaults and Termination**

The dealership agreement shall, at the option of the Company, terminate automatically upon delivery of notice to the dealer, if the dealer fails to meet Company standards on sales, safety, customer service, payments and standard operating, financial and legal requirements as outlined in the dealership agreements and operating manual.

## INTELLECTUAL PROPERTY / TRADEMARKS

The Company uses its registered trademark *PHOENIX Fuels Life*™ to identify its brand. This trademark was registered on April 27, 2009 and will expire on April 27, 2019. Branding is a cornerstone of the Company's marketing program. It sells its refined petroleum products under the Phoenix trademark and logo. Below are the approved trademarks by the Intellectual Property Office of the Philippines ("IPOPHIL") through the Bureau of Trademarks.

PRODUCT	REGISTRATION NO.	DATE OF REGISTRATION	TERM
NEST Necessities for Life	4-2008-012149	Feb. 9, 2009	10 yrs, until 2-9-2019
CAGE Free ur Spirit	4-2008-012148	Feb. 9, 2009	10 yrs, until 2-9-2019
PHOENIX Fuels Life	4-2009-000918	April 27, 2009	10 yrs, until 4-27-2019
PHOENIX Facing East	4-2009-000917	April 27, 2009	10 yrs, until 4-27-2019
PHOENIX Flame Kerosene	4-2008-005929	Oct. 13, 2008	10 yrs, until 10-13-2018
PHOENIX Jet A-1	4-2008-005934	Oct. 27, 2008	10 yrs, until 10-27-2018
PHOENIX Magma Diesel	4-2008-005936	Oct. 13, 2008	10 yrs, until 10-13-2018
PHOENIX Raptor X Premium	4-2008-005932	Oct. 13, 2008	10 yrs, until 10-13-2018
PHOENIX Regular	4-2008-005931	Oct. 13, 2008	10 yrs, until 10-13-2018
PHOENIX Glide Super Unleaded	4-2008-005933	Oct. 13, 2008	10 yrs, until 10-13-2018
ACCELERATE Supreme	4-2012-005161	July 26, 2012	10 yrs, until 7-26-2022
ZOELO Extreme Heavy Duty Engine Oil	4-2012-005162	April 27, 2012	10 yrs, until 8-2-2022
PHOENIX Cyclomax Motorcycle Oils 4T Force	4-2012-005164	April 27, 2012	10 yrs, until 8-16-2022
ZOELO Diesel Oil	4-2012-005163	Aug. 16, 2012	10 yrs, until 8-16-2022
PHOENIX Cyclomax Motorcycle Oils	4-2012-005165	Jan. 03, 2013	10 yrs, until 1-3-2023
ACCELERATE Vega Fully Synthetic Motor Oil	4-2012-005169	Jan. 03, 2013	10 yrs, until 1-3-2023
CYCLE Fork Oil	4-2012-00005168	June 14, 2013	10 yrs, until 6-14-2023
2T 2-Stroke Motorcycle Oil	4-2012-00005167	Sept. 27, 2013	10 yrs, until 9-27-2023
2T MAX	4-2012-00005166	Sept. 12, 2013	10 yrs, until 9-12-2023
PHOENIX Premium 98	4-2014-002029	June 12, 2014	10 yrs, until 6-12-2024
PREMIUM 98	4-2014-002028	June 12, 2014	10 yrs, until 6-12-2024
PHOENIX Trip natin'to	4-2016-00000999	Aug. 25, 2016	10 yrs, until 8-25-2026
Ikaw, Ano'ng Trip mo?	4-2016-00001000	Aug. 25, 2016	10 yrs, until 8-25-2026
Trip natin'to	4-2016-00001001	Aug. 26 2016	10 yrs, until 8-25-2026
PHOENIX Accelerate	4-2016-00002282	May 19, 2016	10 yrs, until 5-19-2026
PHOENIX Accelerators	4-2016-00002722	June 10, 2016	10 yrs, until 6-10-2026
PHOENIX ZOELO	4-2016-00002286	July 21, 2016	10 yrs, until 7-21-2026
PHOENIX FuelMasters	4-2016-00002723	July 7, 2016	10 yrs, until 7-7-2026
PHOENIX Zoelo Extreme Heavy Duty Diesel Engine Oil	4-2016-00002287	Aug. 18, 2016	10 yrs, until 8-18-2026
PHOENIX Tsuper Club	4-2016-00014745	Mar. 24, 2017	10 yrs, until 3-24-2027
PHOENIX Premium 98 High Performance Gasoline Fuel with Engine Rejuvenator Additives	4-2016-00014739	April 20, 2017	10 yrs, until 4-20-2027
With Era Engine Rejuvenator Additive	4-2016-00014740	April 13, 2017	10 yrs, until 4-13-2027
With Active Cyclo Booster	4-2016-00014742	April 13, 2017	10 yrs, until 4-13-2027
With Speed Booster	4-2016-00014743	April 13, 2017	10 yrs, until 4-13-2027
PHOENIX FuelMasters	4-2016-00014744	April 13, 2017	10 yrs, until 4-13-2027
With HDD Formula	4-2016-00014741	May 4, 2017	10 yrs, until 5-4-2027
PHOENIX Super LPG (Red)	4-2017-00009625	Oct. 5, 2017	10 yrs, until 10-5-2027
Phoenix Super LPG (Emerald green)	4-2017-00009626	Oct. 5, 2017	10 yrs, until 10-5-2027
Phoenix Super Gas (Red)	4-2017-00009627	Oct. 5, 2017	10 yrs, until 10-5-2027
Phoenix Super Gas (Emerald green)	4-2017-00009628	Oct. 5, 2017	10 yrs, until 10-5-2027
With HDD Formula	4-2016-00014741	May 4, 2017	10 yrs, until 5-4-2027
Phoenix Fuellmasters	4-2016-00014744	April 13, 2017	10 yrs, until 4-13-2027
Phoenix Tsuper Club	4-2016-00014745	March 24, 2017	10 yrs, until 3-24-2027
Phoenix Premium 98 High Performance Gasoline Fuel with Engine Rejuvenator Additives	4-2016-00014739	April 20, 2017	10 yrs, until 4-20-2027
With Speed Booster	4-2016-00014743	April 13, 2017	10 yrs, until 4-13-2027

Phoenix Pulse Technology	4-2017-00013303	March 01, 2018	10 yrs, until 3-01-2028
Pulse Technology for Enhanced Power & Acceleration	4-2018-00004208	Aug. 23, 2018	10 yrs, until 8-23-2028

## TOTAL NUMBER OF EMPLOYEES

The Company and its subsidiaries have a total of 873 employees as of June 30, 2018 from 810 employees in December 31, 2017. This is broken down as follows:

	<b>2018</b>	<b>2017</b>
Chairman	1	1
President / CEO	1	1
Vice President	5	4
Assistant Vice President	17	16
Senior Manager	3	3
Manager	111	88
Supervisor	312	289
Rank and File	423	408
<b>TOTAL</b>	<b>873</b>	<b>810</b>

The increased number of employees is due to the continuing expansion of the business.

There are no labor unions in the Company and its subsidiaries nor are there any labor cases filed against the Company and its subsidiaries that may materially affect the Company's financial or operational results or position.

Aside from the statutory benefits, the Company grants group term life insurance and hospitalization benefits fully paid by the Company. It also provides free uniforms, free meals, and vacation, sick, emergency leaves and, recently, entitlement to avail of the employee stock option plan ("ESOP") to all its regular employees based on annual performance evaluation.

## INSURANCE

The Company's comprehensive insurance policies cover its terminal, depot facilities, head office building, pier and pipeline structure and its accessories, steel cylindrical tanks, and stocks of all petroleum products stored and contained inside the depot against any incidents of fire/lighting, typhoon, and floods with extended coverage to include loss or damage directly caused by explosion, falling aircraft, vehicle impact and smoke.

All the trucks and tankers owned by the Company are covered with third party liability and comprehensive insurance. The products carried by these heavy equipment are covered with in-land cargo insurance. The Company believes that its insurable assets are adequately covered.

## PLANS AND PROSPECTS

For the analysis of financial condition and results of operation of the Company, see the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operation*" of this Prospectus

### **Strengthen Oil Supply Security**

The Company intends eventually to form strategic partnerships with foreign refined petroleum products producers and traders, and domestic wholesalers.

### **Expand the Petroleum Depot, Terminalling and Distribution Facilities**

The Company plans to establish additional petroleum depot, terminalling and distribution facilities in other strategic locations in key areas of the Luzon, Visayas and Mindanao regions to support its expanded market presence both in wholesale distribution as well as its retail network development. Specific suitable locations have already been identified and negotiations for some are in their final stages and more sites are under consideration.

### **Expand Retail Service Station Network**

The Company plans to increase the current number of retail service stations by 50 to 80 stations per year. Specific suitable locations have already been identified and are now in different stages of negotiations, development or construction. The related expansion and strengthening of its depot, terminalling and distribution facilities will support the implementation of this business plan.

### **Strengthen Retail Management Systems & Operations**

The Company shall continue to develop and strengthen its existing retail network management system in order to support its retail network expansion program in collaboration with its dealers and franchisees.

### **Developing the Brand: A Marketing Cornerstone**

Branding will continue to be a cornerstone of the Company's marketing campaign to make Phoenix as the brand of choice of customers and commercial users.

### **Expand Product Offerings and Distribution Channels**

As part of the Company's thrust to strengthen the brand, more products led by its lubricants line will be launched. These product offerings, covering the vehicles' needs (except spare parts) as well as driving-related requirements, will be made available in selected Phoenix stations but also through other traditional distribution channels of these products.

The Company has also started to aggressively penetrate the bunker fuel market specifically to cater to industrial customers such as power plants and shipping companies.



## DESCRIPTION OF PROPERTIES

The Company's properties consist mainly of its terminal, depot facilities, head office building, pier and pipeline structure and its accessories, steel cylindrical tanks, and stocks of all petroleum products stored and contained inside the depot.

Below is the list of the Company's properties:

### CORPORATE OFFICES

Davao Head Office	Phoenix Bulk Depot, Lanang, Davao City 8000
Manila Office	25th Floor, Fort Legend Towers, 3 <sup>rd</sup> Avenue corner 31 <sup>st</sup> Street, Fort Bonifacio Global City, Taguig City 1634
Cebu City Office	Phoenix Maguikay Gasoline Station, M. C. Briones St., National Highway, Maguikay, Mandaue City, Cebu 6014
Bacolod City Office	Door 5-7, Ground Floor, JFC Bldg., Palanca Avenue, BREDCO Reclamation Area, Bacolod City
General Santos City Office	2 <sup>nd</sup> Floor, JMP Building 1, South Osmeña St., General Santos City 9500
Cagayan de Oro City Office	Suite 1 & 2, 8 <sup>th</sup> Floor, Limketkai Gateway Center, Lapasan, Cagayan de Oro City 9000

### DEPOTS AND TERMINALS

Bacolod Depot	BREDCO, Port Reclamation Area, Cambodia Street, Bacolod City
Calaca Terminal	Km 117, Barangay Salong, Phoenix Petroterminal and Industrial Park, Calaca, Batangas
Calapan Depot	Sitio Silangan, Brgy. Lazareto, Calapan City
Cebu Depot	Tayud, Consolacion, Cebu
Davao Terminal	Stella Reyes Hizon Road, B.O Pampanga, Lanang, Davao City
Dumaguít Depot	Dumaguít, New Washington, Aklan
General Santos Depot	Tambler, General Santos City
Palawan Depot	Star Oil Depot, Rapols St., Brgy. Masipag, Parola Extension, Puerto Princesa City
Subic Terminal	Unit 113/115, Alpha Bldg., Subic International Hotel, Rizal Highway, Subic Bay Freeport Zone, 2222

Villanueva Terminal	Zone 4, Barangay Katipunan, Villanueva, Misamis Oriental
Zamboanga Depot	Dumagsa, Talisayan, Zamboanga City

## LEASED PROPERTIES

The Company's headquarters, where substantially all of its operations are conducted, is currently located at Stella Hizon Reyes Road, Bo. Pampang, Lanang, Davao City. The premises are covered by existing lease contracts with UC and the Heirs of Stella Hizon Reyes, as lessors.

Following are the relevant terms of the lease contracts:

- The lease contract with UC shall be for a term of twenty-five (25) years commencing in August 2002, subject to renewal upon terms and conditions to be agreed to by the parties; while the lease contract with the Heirs of Stella Hizon Reyes shall be effective for seventeen (17) years, commencing on March 20, 2010, subject to renewal upon terms and conditions to be agreed to by the parties.
- The Company shall pay UC a monthly rental at the rate of ₱12.00 per square meter, or a total of ₱132,000 per month, plus 10% value-added tax and 5% withholding tax. The rate shall be subject to a 10% increase every succeeding year commencing in August 2005. For the property leased from the Heirs of Stella Hizon Reyes, the Company shall pay a monthly rental at the rate of ₱18.00 per square meter for the first two years of the contract and shall be increased at a rate of 10% after every two years until the termination of the contract.
- The leased premises shall be used exclusively by the Company for its storage of petroleum and fuel products and for its pier facilities or any other related business. The Company is prohibited from using the leased premises for any other purpose without the prior written consent of the lessors.
- The Company may not introduce improvements or make alterations or changes without the written consent of UC, except the construction of the necessary offices, storage tanks and other improvements required by the business of the Company.
- UC shall have the right to pre-terminate the lease on any of the following grounds: (a) non-payment of rentals for at least two (2) consecutive months; (b) if the Company, at any time, fails or neglects to perform or comply with any of the covenants, conditions, agreements, or restrictions stipulated in the lease contract; or (c) if the Company shall become insolvent. UC shall give the Company one (1) month notice prior to the intended date of termination. The Company may pre-terminate the lease, upon prior thirty-day written notice to UC.

## Leased Properties for Terminal / Depot Sites

The Company likewise executed valid lease agreement over various parcels of lands in various areas of the country where its terminals / depots are located and established as part of its expansion program, namely:

- **Zamboanga City.** The Company entered to a lease agreement with Jordan Fishing Corporation for an area of 10,000 square meters for a period of ten (10) years, with an option to renew for

another five (5) years. The said lease agreement commenced November 16, 2008. The depot in Zamboanga City has a 5.5 million liter capacity that supports the retail network and the commercial and industrial accounts.

- **Bacolod City.** A land with an area consisting of 5,000 square meters more or less was leased by the Company from Jordan Fishing Corporation for ten (10) years starting January 01, 2008 with option to renew for another five (5) years. The Depot in Bacolod City has a 9 million liter capacity that supports the retail network and the commercial and industrial accounts in the area.
- **Mindoro.** A land with an area consisting of 3,723 square meters more or 29 less was leased by the Company from Benjamin Espiritu for twenty (20) years starting September 2013 with option to renew for another ten (10) years. This is site of the Company Depot to support its retail network and the commercial and industrial accounts in the area.

#### **Lease of Properties where CODOs are Located**

In addition to the lease covering the premises where the Company's headquarters is located, the Company has existing lease contracts with various property owners covering the properties where its CODOs are situated. Relevant terms of said lease contracts are typically as follows:

- The lease shall be for a term of ten (10) to fifteen (15) years, subject to renewal upon such terms and conditions as may be agreed upon in writing and signed by the parties.
- The Company shall pay monthly rentals, subject to annual escalation ranging from 3% to 10%, plus applicable real estate and government taxes.
- The leased premises may be occupied and used by the Company exclusively as a retail service station. In some areas, the leased premises for the CODOs include the operations of convenience stores, coffee shops, service bays and other facilities as might be deemed appropriate for a gasoline/retail service station.
- The Company is permitted to assign or sublet the leased premises subject to notice to the lessors.

#### **FUTURE ACQUISITIONS**

The Company intends to establish terminal operations in other locations, expand its dealership network and its services as well as the necessary logistical requirements to support these activities. For this purpose, the Company intends to increase its gasoline stations and acquire equipment and other depot and logistic facilities. Generally, the Company conducts competitive bids to determine where to source its equipment and facilities. The main considerations are the cost, compatibility with the existing equipment and facilities, and whether they meet the Company's specifications.

## PHILIPPINE REGULATORY AND ENVIRONMENTAL MATTERS

*The statements herein are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.*

### REGULATORY FRAMEWORK

#### Oil Deregulation Law

The Oil Deregulation Law provides the regulatory framework for the country's downstream oil industry.

Under the Oil Deregulation Law, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant Government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Law in March 1998 through Department Circular No. 98-03-004 and the Supplementing Rules and Regulations of the Oil Deregulation Law in June 1998 through DOE Circular No. 98-06-009. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the lead government agency overseeing the oil sector. With the enactment of the Oil Deregulation Law, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving the price-setting to market forces. The DOE's current function is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Law include the following:

- monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;
- monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;
- maintaining a periodic schedule of present and future total industry inventory of petroleum products for the purpose of determining the level of the supply and immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
- in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person

or entity engaged in the industry.

Under the Oil Deregulation Law and DOE Department Circular No. 2017-11-0011 or the Revised Rules and Regulations Governing the Business of Retaining Liquid Fuels (the “**Revised Retail Rules**”), the Company is required to obtain from the Oil Industry Management Bureau (“**OIMB**”) of the DOE a Certificate of Compliance (“**COC**”) with the requirements prior to engaging in the business of selling or dispensing liquid petroleum products directly to motorists, end-users and other consumers. These requirements include, among others, prior notice of the Company’s intention to engage in the business of selling liquid petroleum products and submission of documentary requirements before commencement of construction and operation, such as the following:

- Fire Safety Inspection Certificate issued by the Bureau of Fire Protection of the Philippines (“**BFP**”) pursuant to Republic Act No. 9514, otherwise known as the “Fire Code of the Philippines of 2008 (“**Fire Code**”); and
- Environmental Compliance Certificate (“**ECC**”) or Certificate of Non-Coverage (“**CNC**”) issued by the Department of Environment and Natural Resources (“**DENR**”) Environmental Management Bureau pursuant to Presidential Decree No. 1586 (Establishing an Impact Assessment System).

The owner or operator of a retail outlet shall be deemed to be engaged in illegal trading of liquid petroleum products if such owner or operator operates a retail outlet without a COC. Storage and dispensing of liquid fuels that are for own-use operation shall not be covered by the Revised Retail Rules only upon issuance of a CNC by the DOE.

The Revised Retail Rules likewise imposes: (i) mandatory standards and requirements for new retail outlets and minimum facility requirements for existing retail outlets; (ii) rules and procedures relating to fuel storage, handling, transfer and/or dispensing of liquid fuels; (iii) requirements of other types of retail outlets; (iv) the conduct of inspection and monitoring by the OIMB; (v) rules and procedures relating to liquid fuels quantity and quality; and (vi) fines and/or sanctions against prohibited acts.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. Prohibited acts include illegal trading, adulteration, underdelivering, refusal/ obstruction of inspection and sampling, hoarding, and continuing to operate after an order or notice of cessation of operation has been issued by the DOE. The refusal of inspection shall constitute *prima facie* evidence of the commission of prohibited acts under the Revised Retail Rules.

The Oil Deregulation Law also requires all petroleum product transport containers of the Company to be registered with the Industrial Technology Development Institute of the Department of Science and Technology.

In addition to the foregoing, the Company is required to obtain a permit or clearance from the DENR prior to any importation of slop/used/waste oils, sludge and similar petroleum products pursuant to Republic Act No. 6969 or the Toxic Substances, Hazardous and Nuclear Wastes Control Act of 1990. The Company believes that its facilities and operations comply in all material respects with the requirements of the Oil Deregulation Law.

In respect of the operation of retail gasoline stations, the Company’s dealership agreement with its dealers provide that the dealers shall be responsible for securing all the necessary permits from the BFP, DENR and OIMB as required under the Oil Deregulation Law, and such other permits and licenses required by the local government unit and/or the national Government.

## Promotion of Retail Competition

Pursuant to the Oil Deregulation Law's objective to promote a competitive petroleum product market at the retail level, the DOE is mandated to promote and encourage the active and direct participation of the private sector and cooperatives in the retailing of petroleum products through joint venture or supply agreements with new industry participants for the establishment and operation of gasoline stations. Under prevailing rules and regulations, new industry participants are given preference in the (i) formulation and implementation on management and skills training for the establishment, operation, management and maintenance of gasoline stations and (ii) grant of gasoline station training and loans to be used as capital for the establishment and operation of gasoline stations.

## Environmental Compliance

The Company's operations are subject to evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations address, among other things, air emissions, wastewater discharges, generation, handling, storage, transportation, treatment and disposal of oil products, workplace conditions and employee exposure to hazardous substances.

Among the permits applicable to the Company are the ECC, wastewater discharge permit, and the permit to operate a standby generator from the DENR.

In order to address air pollution from mobile and stationary sources, equipment that emit or may emit air pollutants may only be operated upon obtaining a Permit to Operate from the DENR. An application for a Permit to Operate must be filed for each source emitting regulated air pollutants, but facilities having more than one source may group the sources under a single permit application.

Phoenix retail service stations, as well as its petrochemical depots and storage facilities, are required to secure an ECC prior to their start of operations.

The Company believes that its facilities comply in all material respects with all applicable safety, health and environmental laws and regulations.

The DENR, through its regional offices or through the Environmental Management Bureau (the "EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("EIS") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("IEE") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is mandatory. Presidential Proclamation No. 2146 classified petroleum and petrochemical industries as environmentally critical projects.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by the EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

The cost of complying with environmental regulations is mainly made up of the equipment and facilities required to be put up in each of the service stations. The estimated average cost of complying with environmental regulations is ₱50,00.000 per retail service station.

In respect of the operation of retail service stations, the Company's dealership agreement with its dealers provide that the dealers shall be responsible for securing all the necessary permits from the BFP, DENR and OIMB as required under the Oil Deregulation Law, and such other permits and licenses required by the local government unit and/or the national Government.

The Company has secured all government-mandated licenses and permits required for the operation of its business.

### **The Biofuels Act of 2006**

Republic Act No. 9367, also known as the "Biofuels Act of 2006," as amended, aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all premium gasoline fuel sold by every oil company in the Philippines should contain a minimum 10% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In June 2015, the DOE issued Department Circular No. DC 2015-06-005, or the Amended Guidelines on E-10 Implementation, which temporarily waives compliance by oil companies with the required bioethanol blend for premium plus grade gasoline products when supply of locally produced bioethanol products are insufficient to meet demand.

In 2008, a Joint Administrative Order known as the "Guidelines Governing the Biofuel Feedstock Production and Biofuel Blends Production, Distribution and Sale" (the "**Guidelines**") was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend biodiesel

with diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In June 2015, the DOE issued Department Circular No. DC 2015-06-007, or the Revised Guidelines on the Utilization of Locally-Produced Bioethanol ("**Revised Guidelines**"), which repealed Department Circular No. 2011-12-0013, or the "Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006." The Revised Guidelines require oil companies operating within the Philippines to secure and maintain a DOE accreditation as an "Oil Industry Participant in the Fuel Bioethanol Program" and submit to the OIMB certain reports in order for the OIMB to monitor the oil companies' compliance with the Revised Guidelines, including an annual performance compliance report relating to the oil companies' compliance with the minimum biofuel blends and monthly reports on compliance with local monthly allocations for the use of locally-sourced bioethanol. The Revised Guidelines further require oil companies to strictly comply with the Local Monthly Allocation ("**LMA**"). The LMA refers to the local bioethanol volume imposed on oil companies based on the committed volume by the local bioethanol producers of bioethanol available for lifting by the oil companies and computed and circulated by the OIMB.

In February 2016, the Congress of the Philippines promulgated Republic Act No. 10745, amending the Biofuels Act. The law allows natural gas power generation plants to use neat diesel (instead of the mandated biofuel blend) as alternative fuel during shortages of natural gas supply. The DOE issued Department Order No. 2016-07-0012 or the implementing rules and regulations for Republic Act No. 10745. It provides that the natural gas power generating plants with duly issued Certificate of Compliance from the Energy Regulatory Commission can avail of the use of neat diesel in the following instances:

1. During maintenance and/or shutdown of facilities used for the supply of natural gas such as pipelines, terminal, etc.,
2. During force majeure which adversely affect the supply of natural gas to natural gas power plants, or
3. Other analogous instances.

All suppliers of natural gas shall submit to the DOE their preventive maintenance schedule indicating the dates when the suppliers of natural gas would be critical. During force majeure events, the DOE shall determine the affected facilities for proper issuance of certification of the shortage of natural gas supplies.

### **Philippine Clean Air Act**

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act of 1999," provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Clean Air Act specifies the allowable sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by weight by January 1, 2004 nationwide. The law also prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or fuel additive unless these have been registered with the DOE. All the requirements of the said law have been



implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Clean Air Act and the DOE initiative on alternative fuels.

#### **Philippine Clean Water Act**

In 2004, Republic Act No. 9275, or the “Philippine Clean Water Act of 2004,” was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country’s water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land-based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

#### **Laws and Regulations Involving Liquefied Petroleum Gas (“LPG”)**

##### ***Batas Pambansa Blg. 33 (“BP 33”)***

BP 33, as amended by Presidential Decree 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (i) illegal trading in petroleum and/or petroleum products, and (ii) underdelivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled liquefied petroleum gas cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

- (a) That cylinders containing less than the required quantity of liquefied petroleum gas which are not properly identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;
- (b) In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and
- (c) When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or liquefied petroleum gas cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the liquefied petroleum gas cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to in sub-paragraph (a), (b), and (c) above, to deliver products for sale or distribution shall constitute *prima facie* evidence of intent of the hauler, marketer, refiller, dealer or retailer outlet operator to defraud.

Under the said law, “illegal trading in petroleum and/or petroleum products” is understood to mean, among others, (1) the sale or distribution of petroleum products without license or authority from the OIMB, (2) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (3) refilling of liquefied petroleum gas cylinders without authority from the OIMB, or refilling of another company’s or firm’s cylinders without such company’s or firm’s written authorization, and (4) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

“Underfilling” or “underdelivery” refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to liquefied petroleum gas in cylinder or to lube oils in packages.

### ***Fire Code Implementing Rules and Regulations***

The Fire Code implementing rules and regulations also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

### ***Rules and Regulations Governing the LPG Industry***

In January 2014, the Department of Energy issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the “**LPG Industry Rules**”). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate (“**SCC**”) from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (i) minimum standards and requirements for refilling and transportation of LPG; (ii) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appears on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that its cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

### ***Rules Pertinent to Auto-LPG Motor Vehicles***

On February 13, 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled “Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas (LPG) for Automotive Use” (the “**Auto-LPG Rules**”). The Auto-

LPG Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB an SCC before it can operate. The Auto-LPG also mandates all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute *prima facie* evidence of hoarding: (i) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; (ii) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of this Auto LPG Rules, “undue accumulation” shall mean the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office (“LTO”) also issued Memorandum Circular No. RIB-2007-891 or the “Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles.” The said Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards (“BPS”) of the Philippine Department of Trade and Industry (“DTI”) under its Philippine Standards Certification Mark scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance.

### **Oil Pollution Compensation Act**

Republic Act No. 9483, otherwise known as the “Oil Pollution Compensation Act of 2007,” imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, as well as the cost of preventive measures to protect it from further damage.

The law also provides that any person who has received more than 150,000 tons of “contributing oil” (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, “oil” includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received “contributing oil,” for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person’s subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Republic Act No. 9483 provides for the establishment of a fund to be constituted from, among others, an impost amounting to ten centavos per liter levied on owners and operators and tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund, will be in addition to the requirement under the 1992 Civil Liability Convention and 1992 Fund Convention and will be administered by the Maritime Industry Authority ("**MARINA**").

In April 2016, the Department of Transportation (then the Department of Transportation and Communications) promulgated the implementing rules and regulations of Republic Act No. 9483. Under the rules, oil companies are required to submit (a) reports on the amount of contributing oil received and (b) sales and delivery reports of persistent oil.

### **Other Regulations on Water Pollution**

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the MARINA and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA issued: (i) Circular No. 2007-01 which mandated the use of double-hull vessels including those below 500 tons deadweight tonnage by the end of 2008 for transporting Black Products; and (ii) Circular No. 2010-01 for transporting White Products in certain circumstances by 2011.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills. Oil companies, oil explorers, natural gas explorers, power plants/barges and tanker owners are also required to develop shipboard oil pollution emergency plans to be approved by the Philippine Coast Guard.

Moreover, both the Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

### **Consumer Act of the Philippines**

Republic Act No. 7394, otherwise known as the Consumer Act of the Philippines ("**Consumer Act**"), the provisions of which are principally enforced by the DTI, seeks to: (a) protect consumers against hazards to health and safety, (b) protect consumers against deceptive, unfair and unconscionable sales

acts and practices; (c) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (d) provide adequate rights and means of redress; and (e) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as: (a) consumer product quality and safety; (b) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (c) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (d) practices relative to the use of weights and measures; (e) consumer product and service warranties; (f) compulsory labeling and fair packaging; (g) liabilities for defective products and services; (h) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (i) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

### **Local Government Code**

The Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit ("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

### **Other Regulatory Requirements**

On September 7, 2010, the DENR issued Department Order No. 2010-23 on the Revised Emission Standards for Motor Vehicles Equipped with Compression Ignition and Spark Ignition Engines, mandating compliance of all new passenger and light duty motor vehicles with Euro IV (PH) emission limits subject to fuel availability, starting on January 1, 2016. Euro IV vehicle emission technology requires a more stringent fuel quality of 0.005% sulfur content for both diesel and gasoline.

Philippine government regulations also require the Company to secure, among others, certificates of conformance of facilities to national or accepted international standards on health, safety and environment, and product liability insurance certificates or product certificate of quality. These certificates, together with the Fire Safety Inspection Certificate and ECC have to be submitted to the DOE for monitoring purposes. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/transshipment; (c) distribution/operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper governmental authorities.

## **The Retail Trade Liberalization Act**

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 (“**R.A. 8762**”), was enacted into law on March 7, 2000. R.A. 8762 liberalized the retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of the Retail Trade Liberalization Act, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

“Retail Trade” is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling directly to the general public any merchandise, commodities, or goods for consumption. Under R.A. 8762, retail trade enterprises with paid-up capital of less than US\$2,500,000 are exclusively reserved for Filipino citizens. Full foreign participation is allowed only if any of the following qualifications is met: (a) with paid-up capital of US\$2,500,000 or more provided that investments for establishing a store is not less than US\$830,000; or (b) specializing in high end or luxury products, provided that the paid-up capital per store is not less than US\$250,000.

Any foreign investor may be allowed to invest in existing retail stores. However, the investment must comply with the paid-up capitalization requirements enumerated above.

Furthermore, foreign investors whom are also retailers and invest in existing retail stores are required to be pre-qualified with the Board of Investments before they can buy shares. No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- (1) A minimum of US\$200 million net worth in its parent corporation for enterprises with paid-up capital of US\$2,500,000 or more (provided that investments for establishing a store is not less than US\$830,000), and US\$50 million net worth in its parent corporation for enterprises specializing in high end or luxury products (provided that the paid-up capital per store is not less than US\$250,000);
- (2) Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US\$25 million;
- (3) Five-year track record in retailing; and
- (4) Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers shall be allowed to engage in retail trade in the Philippines.

The implementing rules of RA 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers before they are allowed to conduct business in the Philippines.

## **Other Relevant Tax-related Regulations**

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.



Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate the tariff rates on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area ASEAN Trade in Goods Agreement ("**ATIGA**"). Under the ATIGA, crude oil and refined petroleum products imported from Association of Southeast Asian Nations ("**ASEAN**") Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was further increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity. Under the TRAIN law, excise taxes shall be imposed on diesel, bunker fuel and kerosene and shall form part of the scheduled incremental increase in excise taxes from 2018 to 2020. A scheduled incremental increase in excise taxes for regular gasoline is also imposed under the TRAIN law.

Republic Act No. 9136, or the Electric Power Industry Reform Act of 2001, provides for parity tax treatment among imported oil and indigenous fuels. Prior to the enactment of this law, indigenous fuels were imposed with higher taxes due to royalties to the Philippine government.

### **Effect of Existing or Probable Government Regulations on the Company's Business**

Oil industry players are required to comply with the laws discussed above, and to follow strictly the guidelines of the DENR and the DOE. There can be no assurance that current laws and regulations applicable to the Company will not increase the costs of operating its facilities above currently projected levels or require future capital expenditures. Although the Company endeavors to maintain compliance with applicable laws and regulations, the introduction or inconsistent application of, or changes in, laws and regulations applicable to the Company's business could have a material adverse effect on its business, financial condition and results of operations.

## CERTAIN LEGAL PROCEEDINGS

The Company's independent director, Monico V. Jacob, in his capacity as then Chairman of Petron Corporation, was impleaded in a case together with some government officials for Violation of Republic Act 3019 otherwise known as the Anti-Graft and Corrupt Practices Act involving tax credit payments. The case have been dismissed by the Sandiganbayan, Fourth Division, Quezon City in a Resolution dated March 2, 2017. The dismissal of the case has not been subject of a motion for reconsideration or an appeal and hence, became final.

The DOJ filed twenty-five (25) Informations against Dennis A. Uy, President of the Company, for alleged violations of the Tariff and Customs Code of the Philippines, twenty- two (22) of which were filed with the Regional Trial Court of Davao City while the other three (3) Informations were filed with the Regional Trial Court of Batangas City.

With respect to the Informations filed with the Regional Trial Court of Batangas City, Mr. Uy filed an Omnibus Motion for the Determination of Lack of Probable Cause on September 2, 2013. The Regional Trial Court of Batangas City granted the said motion on September 17, 2013 and dismissed all three (3) Informations. The DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge Ruben A. Galvez, and was subsequently denied on December 6, 2013. On July 7, 2014, the Regional Trial Court of Batangas City issued a Certificate of Finality certifying that the Orders dated December 6, 2013 and September 17, 2013, were already final and executory, since no appeal was filed therefrom.

With respect to the Informations filed with the Regional Trial Court of Davao City, on October 4, 2013, the Regional Trial Court of Davao City ordered the dismissal of the criminal cases against Mr. Uy. The subsequent Motion for Reconsideration of the Plaintiff, People of the Philippines, was also denied in an Order dated August 18, 2014. Hence, the People of the Philippines ("Petitioner") filed on October 27, 2014 with the Court of Appeals (CA), Cagayan de Oro City a Petition for Certiorari under Rule 65 of the Rules of Court docketed as CA G.R. SP No. 06500-MIN CA, CDO, 23rd Division. On October 24, 2016, Mr. Uy received a copy of the CA's Decision dated October 12, 2016 dismissing the Petition for Certiorari. On November 10, 2016, Mr. Uy received a copy of the Motion for Reconsideration filed with the CA.

On January 25, 2017, the CA issued a Resolution denying the Petitioner's Motion for Reconsideration and upholding its decision.

On 4 April 2017, the Company received a copy of the Petition for Review on Certiorari dated 27 March 2017 filed by petitioner docketed as GR No. 229705, SC, Manila, 3rd Division. To date, the Supreme Court has yet to issue a resolution directing the Respondents, including Mr. Uy, to comment on the Petition for Review.

Several complaints for Grave Coercion, Robbery and Libel were filed against the Sales Team of South Mindanao and other officers, including all the members of the Board of Directors except for Domingo T. Uy, Paul G. Dominguez and Carolina Inez Angela S. Reyes, in relation to the Company's closure and take-over of six (6) Phoenix Fuel Stations in Davao City. These complaints were dismissed by the Davao City Prosecutor's office.

Other court cases typical and customary in the course of the business operations of the Company such as those, among others, involving collection, qualified theft, breach of contract and reckless imprudence, tax and regulatory matters have been filed by and against the Company, by and against



its employees/directors/officers and/or third parties, the results of which will not significantly affect the financial standing of the Company.

Except for the above, to the best of the Company's knowledge there has been no occurrence during the past five (5) years up to the date of this Prospectus of any of the following events:

- (i) Any insolvency or bankruptcy petition filed by or against the Company or any of its directors or officers or any business of which such person was a director, general partner or executive officer either at the time of the insolvency, bankruptcy and any other similar proceedings or within two years prior to that time;
- (ii) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (iii) Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and
- (iv) Any final and executory judgment by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

Further, the Company or any of its officers and directors have not become the subject of legal proceedings for suspension of payments or other debt relief within the past five (5) years, or otherwise becomes unable to pay its debts as they mature or shall make or threaten to make an assignment for the benefit of, or a composition or arrangement with, creditors or any class thereof, or shall declare a moratorium on indebtedness.

## MARKET INFORMATION AND DIVIDENDS ON THE COMPANY'S COMMON SHARES AND RELATED STOCKHOLDERS MATTERS

### MARKET INFORMATION

The Company's common shares were listed and traded at the Exchange starting on July 11, 2007. The high and low sale prices of the Company's common shares for each quarter within the last three fiscal years and subsequent interim periods are:

	High				Low			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
First Quarter	13.80	8.47	4.43	4.15	11.10	5.53	3.40	3.13
Second Quarter	12.80	11.68	6.29	4.16	11.74	8.10	4.20	3.48
Third Quarter	12.20	13.26	6.46	3.45	10.50	9.50	5.80	3.15
Fourth Quarter		13.36	6.00	3.85		10.90	5.55	3.30

As of June 30, 2018, the Company's closing price was at ₱12.00, with a market capitalization of approximately ₱17.178billion.

### STOCKHOLDERS

The following are the top 20 direct holders of the common shares of the Company:

#	NAME OF STOCKHOLDER	NO. OF SHARES	% OWNERSHIP
1	PHOENIX PETROLEUM HOLDINGS INC.	588,945,630	41.14%
2	ES CONSULTING, GROUP, INC.	340,270,980	23.77%
3	TOP DIRECT INVESTMENTS LIMITED	142,000,000	9.92%
4	UDENNA CORPORATION	117,245,918	8.19%
5	PCD NOMINEE CORPORATION (FILIPINO)	109,844,749	7.67%
6	PCD NOMINEE CORPORATION (NON-FILIPINO)	107,206,416	7.49%
7	UDENNA MANAGEMENT & RESOURCES CORP.	11,661,195	0.81%
8	JOSELITO R. RAMOS	4,812,600	0.34%
9	DENNIS A. UY	4,349,811	0.30%
10	UDENCO CORPORATION	1,614,787	0.11%
11	ROMEO B. DE GUZMAN	1,325,746	0.09%
12	J.V. EMMANUEL A. DE DIOS	1,300,819	0.09%
13	DENNIS A. UY &/OR CHERLYN C. UY	1,098,099	0.08%
14	DOMINGO T. UY	645,919	0.05%
15	JOSEPH JOHN L. ONG	520,836	0.04%
16	ERIC U. LIM OR CHRISTINE YAO LIM	319,000	0.02%
17	MARJORIE ANN LIM LEE OR PAULINE ANN LIM	300,000	0.02%
18	EDWIN U. LIM OR GENEVIEVE LIM	300,000	0.02%
19	JOSE MANUEL ROQUE QUIMSON	173,039	0.01%

#	NAME OF STOCKHOLDER	NO. OF SHARES	% OWNERSHIP
20	ZENAIDA CHAN UY	149,058	0.01%

## DIVIDENDS

Under Philippine law, dividends may be declared out of a corporation's unrestricted retained earnings which shall be payable in cash, in property, or in stock to all stockholders based on outstanding stock held by them. "Unrestricted Retained Earnings" refer to the undistributed earnings of a corporation which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends shall be determined pursuant to the requirements of the applicable laws and regulations. The approval of the board of directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of the stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

### Dividend Policy

The Company currently does not have a minimum dividend policy; the payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors. Nevertheless, the Company has been consistently paying out cash dividends annually equivalent to at least 30% of its prior year's net income as dividends, whether in stock or in cash or a combination of both, payable out of its unrestricted retained earnings subject to the availability of such unrestricted retained earnings and other statutory limitations.

Each holder of a common share is entitled to such dividends as maybe declared in accordance with the Company's dividend policy. The Company's current dividend policy entitles holders of common shares to receive dividends based on the recommendation of the Board of Directors. Such recommendation will consider such factors as operating expenses, implementation of business plans, and working capital among other factors.

The Company's dividend policy on preferred shares is to declare and pay dividends in accordance with the terms and conditions of its issuance. Holders of preferred shares enjoy preference over the holders of common shares in the payment of dividends.

The dividend policy of the Company's subsidiaries is to declare and pay dividends from unrestricted retained earnings subject to the discretion of their respective Board of Directors.

### History of Dividend Income Payment

For the year 2008, the Board of Directors approved on May 8, 2008 and duly ratified by the stockholders on July 16, 2008, a 30% stock dividend for stockholders of record as of July 11, 2008 to be issued from the Company's unrestricted retained earnings. Distribution date was scheduled on August 6, 2008. A total of 43,000,198 common shares were issued valued at Par Value of ₱1.00 per share or a total of ₱43,000,198.00. Moreover, a cash dividend of ₱0.10 per share was also declared for all

stockholders on record as May30, 2008. Payment date was set on June 26, 2008 for the total amount of ₱14,500,000.00.

For 2009, the shareholders ratified and approved on May29, 2009 a 40% stock dividend. Details are as follows:

Ex-Date	July 3, 2009
Record Date	July 8, 2009
Distribution Date	August 3, 2009
No. of shares distributed	73,660,677 shares

For 2010, on April 12, 2010, the Company's Board of Directors approved a ₱0.05 per share cash dividend. Details are as follows:

Ex-Date	July 12, 2009
Record Date	July 15, 2009
Payment Date	August 10, 2010
Total Amount	₱13,656,430

On July 15, 2010, the Company's stockholders ratified and approved a 40% stock dividend (or a total of 107,664,266 shares), valued at par of ₱1.00 per share and distributed on October 20, 2010 to all stockholders of record as of September 24, 2010.

For the year 2011, the Board of Directors declared a cash dividend for common shareholders with details as follows:

Dividend Rate	₱0.10 per share
Ex-Date	March 22, 2011
Record Date	March 25, 2011
Payment Date	April 20, 2011
Total Amount	₱37,682,494

On March 15, 2011, a 30% stock dividend was declared by the Board of Directors and subsequently approved by the stockholders during the March 11, 2011 annual stockholders' meeting. All stockholders of record as of April 8, 2011 were entitled to the stock dividend declaration that was distributed on May 6, 2011. A total of 113,047,475 common shares were distributed for this declaration. Similarly, the Board of Directors declared and approved the payment of cash dividend at the rate of 11.5% per annum to all preferred shareholders totaling to ₱70.7 million. The preferred shares issuance by the Company is not listed and traded in the Exchange.

For the year 2012, the Board of Directors declared cash dividend for common shareholders with details as follows:

Dividend Rate	₱0.10 per share
Ex-Date	February 8, 2012
Record Date	March 23, 2012
Payment Date	April 23, 2012
Total Amount	₱48,973,955.30

Similarly, a 50% stock dividend was declared by the Board of Directors on February 08, 2012 and subsequently approved by the Stockholders during the March 08, 2012 annual stockholders' meeting. All stockholders of record as March 28, 2012 were entitled to said stock dividend declaration that was distributed on April 26, 2012. Total distributed for this dividend is 113,047,475 shares. Also, the Board of Directors declared and approved the payment of cash dividend at the rate of 11.5% per annum to all preferred shareholders totaling to ₱70.7 million. Preferred shares issuance by the Company is not listed and traded in the Exchange.

On March 8, 2013, the stockholders ratified the BOD approval of 30% stock dividends (or a total of 329.7 million shares), valued at par and distributed on June 10, 2013 to stockholders of record as of May 15, 2013. Cash dividends of ten (10) centavos per common shares totaling to ₱103.6 million were also declared and paid in 2013. In addition, total cash dividends declared and distributed to preferred stockholders amounted to ₱57.5 million in 2013.

On January 29, 2014, the Board of Directors approved the declaration and payment of common share cash dividend of ten (10) centavos per share totaling to ₱142.9 million to stockholders of record as of March 17, 2014. In addition, total cash dividends declared and distributed to 2<sup>nd</sup> tranche preferred stockholders amounted to ₱41.2 million in 2014. No stock dividends were declared and distributed in 2014.

On March 4, 2015, the Board of Directors approved the declaration and payment of common share cash dividends of five (5) centavos per share totaling to ₱71.5 million, record date as of March 18, 2015. A total of ₱41.2 million cash dividends were also declared and distributed to 2<sup>nd</sup> tranche preferred stockholders in 2015. No stock dividends were declared and distributed in 2015.

On March 18, 2016, the Board of Directors approved the declaration and payment of common share cash dividends of eight (8) centavos per share totaling to ₱114.3 million to stockholders of record as of April 05, 2016 and is payable April 29, 2016. A total of ₱194.9 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders in 2016. No stock dividends were declared and distributed in 2016.

On January 25, 2017, the Board of Directors approved the declaration and payment of common share cash dividends of ten (10) centavos per share totaling to ₱136.2 million to stockholders of record as of March 30, 2017, payable on April 27, 2017. A total of ₱194.9 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders in 2017. No stock dividends were declared and distributed in 2017.

On March 15, 2018, the Board of Directors approved the declaration of common share cash dividend of fifteen (15) centavos per share totaling to ₱214.7 million to stockholders of record as of April 02, 2018, payable on April 26, 2018. A total of ₱97.4 million cash dividends were also declared and distributed to 2<sup>nd</sup> and 3<sup>rd</sup> tranche preferred stockholders as of June 30, 2018. There were no dividend payments yet for common shares as of the period mentioned.

## **RECENT SALE OF UNREGISTERED SECURITIES**

On June 22, 2011, the Commission approved the application for exemption from the registration requirement of the Securities Regulations Code of the Company for the proposed issuance of

24,493,620 common shares for the Company's ESOP. On May 14, 2014, the Exchange approved the listing of 24,493,620 common shares pertaining to the Company's ESOP.

On July 26, 2017, the Company implemented for the first time the Company's ESOP after its vesting period of 1 year. For the first tranche, the Company issued additional 2,160,000 common shares to qualified employees pursuant to the ESOP in scripless form and on November 15, 2017, the Company issued additional 601,000 common shares at the price of ₱5.68 per share.

As of June 30, 2018, a total of 2,761,000 ESOP shares have been exercised and subscribed by the Company's grantees. There are no directors who were granted ESOP shares, as these are only granted to regular employees. There are also no current directors who are not executive officers who received or were granted ESOP shares. Further, there are no persons who have received or is to receive 5% of the ESOP. The ESOP was granted to the following persons:

- a) Dennis A. Uy, Chief Executive Officer;
- b) Top 4 executives;
- c) All current executive officers as a group; and
- d) All other qualified employees as a group.

ESOP Grantee	No. of Shares
Top 5 Executives	667,000
Other Executive Officers	568,000
All Qualified Employees	1,526,000
<b>TOTAL</b>	<b>2,761,000</b>

#### **VOTING TRUST HOLDERS OF 5% OR MORE**

The Company knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

#### **CHANGES IN CONTROL**

On 22 May 2017, the Company was informed by its major stockholders, UC and UMRC, of a joint block sale, using the PSE's facilities, of a total of 340,270,958 common shares of the Company in favor of ESGI, a consulting firm that is focused on financial strategy, capital mergers and acquisitions as well as joint ventures. This consists of about 23.77% of the Company's outstanding capital stock.

On 04 January 2018, the Company received a copy of SEC Form 18-A from TDIL, a foreign corporation organized in the British Virgin Islands with registered office in Hong Kong, SAR through a reporting person identified as Mr. Miguel Jose C. Valencia who is holding office at the PSE Center in Ortigas, Metro Manila. The form indicated that TDIL acquired about 142,000,000 shares in the Company representing about 9.92% of the total outstanding capital stock, through a special block sale crossed at the PSE at the price of ₱15.00 per share. It further disclosed that the purpose of the acquisition of equity interest in the Company is for investment purposes in the petroleum industry and it does not intend to acquire shares of the Company for purposes of taking over the same.

## **RE-ACQUISITION / BUY-BACK OF ITS OWN SECURITIES**

On September 21, 2007, the Board of Directors approved the buy-back program of the Company's common shares, worth a total of ₱50 million or 5.15% of the Company's then market capitalization. Using facilities of the Exchange, the program commenced on the second week of October 2007. The program will conclude upon exhaustion of the approved allotment, subject to the disclosure requirements of the SEC and the Exchange.

As of December 31, 2017, December 31, 2016 and December 31, 2015, the Company's treasury shares have cumulative costs of ₱109.4 million, ₱330.7 million and ₱0, respectively. A total of 15.8 million and 54.4 million shares were re-acquired in 2017 and 2016, respectively.

On November 6, 2017, the Company subsequently sold all of its treasury shares amounting to ₱440.1 million. The total consideration received for the sale of treasury shares amounted to ₱807.2 million, which resulted in additional paid-in capital of ₱367.1 million. No re-acquisitions of shares were made between 2009 and 2015.

The funds allocated for the repurchase of the shares was taken from the Company's unrestricted retained earnings. The program was basically designed to boost up and / or improve the shareholders' value through the repurchase of the shares whenever the same is trading at a value lower than its actual corporate valuation. The program did not involve any funds allotted for the Company's impending expansion projects / investments nor any of those allotted for the payment of obligations and liabilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

*The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's audited financial statements, including the related notes, contained in this Prospectus. This Prospectus contains forward-looking statements that are based largely on the Company's current expectations and projections about future events and trends affecting its business and operations. The Company cautions investors that its business and financial performance is subject to substantive risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set out in "Risk Factors." In evaluating the Company's business, investors should carefully consider all of the information contained in "Risk Factors."*

*The summary financial data as of June 30, 2018 and 2017 and December 31, 2017, 2016, and 2015 were derived from the Company's unaudited and audited consolidated financial statements, including the notes thereto, which are included in this Prospectus and from the Company's 2017 annual report.*

*The financial statements as of December 31, 2017, 2016 and 2015 were audited by Punongbayan & Araullo and were prepared in accordance with the PFRS. The summary financial information set out below does not purport to project the results of operations or financial condition of the Company for any future period or date.*

### RESULTS OF OPERATION FOR THE SIX MONTHS ENDED JUNE 30, 2018 VERSUS JUNE 30, 2017

#### Revenues, Cost of Sales and Gross Margins

The Group's revenues grew by 113.1%, from ₱40.248 billion during the first half of 2018 to ₱18.889 billion for the same period in 2017. This was primarily due to the 63% increase in total volume sold (1,271 million liters during the first half of 2018 vs. 782 million liters during the first half of 2017). This volume growth was augmented by the ₱0.426 million sales contributed by PFM.

The 489 million incremental sales volume was mainly attributable to the 347 million liters sold by the company's new subsidiaries, namely PNx SG (264 million liters) and PLPI (82 million liters). In addition, the parent company sold 144 million liters (18%) more than the volume sold during the same period in 2017 (925 million liters during the first half of 2018 vs. 782 million liters during the first half of 2017).

Similarly, cost of sales and services increased by 123.1%, from ₱16.054 billion in 2017 to ₱35.813 billion in 2018, chiefly as a result of the volume growth. This was aggravated by the higher product costs reflecting the global oil price movements, as well as the imposition of excise taxes on petroleum products starting in January 1, 2018.

Consequently, gross margin rose by 56.5% or ₱1.601 billion. Gross margin rate, however, decreased to 11% from the 15% registered in 2017. This was influenced by the combined effect of the lower trading margins of PNx SG and the higher volume sold by the parent company's commercial group.



## **Operating Income and Expenses**

Meanwhile, selling and administrative expenses of ₱2.734 billion, up by 50.8% vis-vis the ₱1.813 billion incurred in 2017, generally because of the cost outlay of the new businesses. Consequently, consolidated operating income amounted to P1.700 billion, up by 66.5% from first half 2017 level of ₱1.1021 billion. Net of the ₱0.399 billion contributed by the new businesses, the net operating income generated by the parent company improved by 27.5%, from ₱1.201 billion earned during the first half of 2017 to ₱1.302 billion for the same period in 2018.

## **Net Income and Non-Operating Expenses**

On the other hand, other net non-operating charges of ₱609 million was 86.6% greater than the ₱327 million incurred in 2017, as a result of additional debt drawn to finance the acquisition as well as the working capital requirements of the new subsidiaries.

As a result, the Group's net income after tax for the first half of 2018 grew by 59% to ₱969.8million, of which ₱344.04 million was contributed by the Group's new businesses. Considering the ₱0.039 million translation adjustment related to PNx SG, total comprehensive income grew by 65.4% to ₱1,009 million from ₱610.08 million.

## **Financial Condition as of June 30, 2018 versus December 31, 2017**

Total resources of the Group as of June 30, 2018 stood at ₱46.129 billion, a 3.7% growth compared to the ₱44.471 billion level as of December 31, 2017. This was mainly due to the increases in property, plant, and equipment, and goodwill, the latter of which was incurred in relation to the acquisition of PFM.

As a result of the 113.1% rise in revenues, cash and cash equivalents as well trade and other receivables grew by 57.9% (from ₱1.832 billion in December 31, 2017 to ₱2.892 billion as of June 30, 2018), and 63.2% (from ₱7.509 billion as of December 31, 2017 to ₱12.257 billion as of June 30, 2018), respectively.

Inventories declined by 48.9% to ₱6.626 billion as of June 30, 2018, from ₱12.970 billion as of December 31, 2017. The build-up in December 2017 was brought about by the confluence of the following factors: to address the new businesses such as LPG with the purchase of PEPI, operation of PNx SG and the volume requirements of the new accounts, higher price of imported petroleum products as a result of movement of prices in the international market, and the decrease in the demand for IFO by the power companies.

As of June 30, 2018, the Group's property and equipment, net of accumulated depreciation, increased to ₱15.426 billion versus the ₱13.401 billion as of December 31, 2017 (by 15.1%), representing the assets of the newly acquired subsidiaries as well as the continuing expansion program of the Group.

Interest-bearing loans and borrowings, both current and non-current, was up by 6.8% from ₱28.171 billion as of December 31, 2017 to ₱30.619 billion as of June 30, 2018. The increment of ₱1.950 billion was from the availment of new loans during the quarter to finance various capital expenditures as well as working capital requirements of the new subsidiaries.

Trade and other payables decreased by 28.3% from ₱3.833 billion as of December 31, 2017 to ₱2.746 billion as of June 30, 2018 due to on-time settlement of the obligations and timing of purchases arrival.

Total stockholders' equity increased to ₱12.761 billion as of June 30, 2018 from ₱11.952 billion as of December 31, 2017, (by 6.8%) resulting from the earnings generated during the period. This was partly offset by the declaration of cash dividends for both common and preferred shares. In addition, new stocks were issued in relation to the Company's ESOP.

### Key Performance Indicators and Relevant Ratios

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

	June 30, 2018	December 31, 2017
Current Ratio <sup>1</sup>	1.17 : 1	1.22 : 1
Debt to Equity Ratio <sup>2</sup>	2.61 : 1	2.72 : 1
Net Book Value per Share <sup>3</sup>	8.86 : 1	6.60 : 1
Debt to Equity Interest-Bearing <sup>4</sup>	2.35 : 1	2.36 : 1
Return on Equity <sup>5</sup>	8.5%	16.5%
Earnings per Share <sup>6</sup>	0.61	1.16

<sup>1</sup> Total current assets / current liabilities

<sup>2</sup> Total liabilities / tangible net worth

<sup>3</sup> Total stockholder's equity (net of Preferred) / total number of shares issued and outstanding

<sup>4</sup> Interest Bearing Debt / total stockholder's equity (net of Preferred)

<sup>5</sup> Period or Year net income / average total stockholder's equity

<sup>6</sup> Period or Year Net income after tax / weighted average number of outstanding common shares

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

### Causes for any Material Changes (5% or more) in the Financial Statements

#### Balance Sheet Items – June 30, 2018 versus December 31, 2017

##### 57.9% increase in Cash and Cash Equivalents

Increased cash inflow due to the 113.1% increase in revenue compared to the previous period.

##### 63.2% increase in Trade Receivables

A result of the 113.1 % increase in revenue this period compared to the previous period.

##### 48.9% decrease in Inventory

This is the normal minimum inventory requirement given the current growth in revenue.

##### 44.3% decrease in Net Input Vat

In relation to the normalized inventory movement.

##### 73.2% increase in Prepayments and Other Current Assets

Due to the renewal of insurances of all the assets, prepaid rentals advertising and other services and acquisitions which will cover the entire year evenly.

##### 15.1% increase in Property, Plant and Equipment

Due to new additional expansions, new acquisitions, retail and depot facilities.

6.8% increase in Intangible Assets

Additions from a newly acquired subsidiary – PFM related to the franchise fee paid to use the “Family Mart” brand.

12.8% increase in Goodwill

Due to the acquisition of PFM, TA and AAI.

13.6% increase in Deferred Assets - Net

Addition from the acquisition of PFM.

86.4% increase in Other Non-current Assets

Due to the acquisition of PFM.

6.5% increase in Current Interest-bearing Loans

Due the reclassification of certain long-term loans which are due for payment this year and new short term loans availed within the period.

28.3% decrease in Trade and Other Payables

Due the on-time settlement of the obligations and timing of arrival of purchases.

85.6% decrease in Income Tax Payable

Creditable withholding tax was offset against the income tax due.

6.4% increase in Non-current Interest-bearing Loans

Due the availment of certain long-term loans within the year

25.8% increase in Non-current Liabilities

Due the increase security deposits from customers of Phoenix and PLPI.

646.5% increase in Accumulated Translation Adjustments

Due to increased assets of the foreign currency denominated subsidiary, PNX SG.

#### *Income Statement Items – June 30, 2018 versus June 30, 2017*

113.1% increase in Sale of Goods

Due to the revenues coming from the new subsidiaries namely; PLPI, Duta, PFM and PNX SG, coupled with, higher fuel prices (by 30%) and additional volume sold relative to last year (by 63%). The parent company recorded an 18% improvement on its volume sold this year.

16% increase in Fuel Service, Shipping, Storage Income, Rental Income and Other Revenue

This is due to the revenues from the newly acquired subsidiary – PFM.

123.1% increase in Cost of Sales and Services

This mirrors the increase in the sale of goods, reflecting the price movements in the world market during the first half of 2018 which is higher compared to the same period in 2017. The increase in excise taxes to petroleum products also contributed to the increment.

50.8% increase in Selling and Administrative Expenses

This is primarily because of the operating requirements of the new subsidiaries. The expansion program of the group caused higher salaries and wages, depreciation, fuel expenses and other

operating expenses. The launching of various advertisements and promotions like Phoenix PULSE Technology are also factors causing the increment.

#### 97.4% increase in Finance Costs

A substantial portion represents interest from the ₱6B loan used to acquire PEPI during the last quarter of 2017.

#### 566.3% increase in Finance Income and Others

These pertain to the reversal of certain bad debts, which were collected in 2018, and expenses accrued in the prior years which would no longer be paid.

#### 43.7% increase in Income Tax Expense

Effect of the improvement of the results of operations, net of the income tax holiday.

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

### **RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2017 VERSUS DECEMBER 31, 2016**

#### **Revenues**

The Group generated total revenues of ₱46.326 billion in 2017, 52% higher than 2016's ₱30.577 billion, on the back of a 17% increase in sales volume and fuel prices. This includes addition of LPG revenue of ₱3.4 billion and PNX SG revenue to third party customers of ₱250 million. The Group reported ₱44.426 billion net of the pre-acquisition revenues, 45% higher than 2016.

Sales revenues from trading and distribution of petroleum products increased by 56% from ₱29.472 billion in 2016 to ₱45.879 billion in 2017. Excluding the LPG business' pre-operating revenue, net increase is 49% amounting to ₱44.051 billion. Retail volume (station sales) increased by 9% due to growth in both station network and same store sales. The commercial and industrial segment also increased by 15%, while aviation volume grew by 13%. Lubricants volume also grew by 49% from the prior year.

Phoenix has built five hundred thirty (530) Phoenix retail service stations as of December 31, 2017 compared to five hundred five (505) retail stations as of the same period last year. The parent company has a number of retail stations undergoing various stages of construction which are projected to be opened within the 1st half of 2018.

The Group generated revenues of ₱375 million from fuel service, storage, and others in 2017, down from ₱1.104 billion in 2016. The 66% year-on-year decline was mainly because 2016 includes shipping, port and real estate revenues from the spun-off subsidiaries. Excluding the revenue from CSC and PPIPC in 2016, fuel services, storage and other revenue increased by 6%.

#### **Cost and Expenses**

The Group recorded cost of sales and services of ₱39.298 billion as of December 2017, an increase of 56% from ₱25.124 billion in 2016. Net of the pre-acquisition cost of sales of the LPG business, the group reported ₱37.909 billion, a net increase of 51%. This was due to higher product costs compared

to last year, reflecting increasing global oil prices. The 17% increase in volume is also a factor in the increase cost of sales.

Selling and administrative expenses increased by 32%, driven by higher operating expenses for completed expansions, expected growth impact and newly acquired subsidiaries.

### **Net Income**

The Group's net income for 2017 grew to ₱1.792 billion from ₱1.092 billion in 2016. This includes one-time gain coming from the excess of fair value over acquisition cost of the newly-acquired subsidiary, Duta, amounting to ₱650 million and the pre-acquisition profit of PLPI and Duta amounting to ₱279 million. Excluding non-recurring income, core business net income grew by 30% to ₱1.421 billion, driven primarily by 17% increase in sales volume and additions from the new business, particularly LPG.

The parent company was registered with the BOI on November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products the Oil Deregulation Law and, as such, enjoyed an income tax holiday for five (5) years from November 16, 2005 to November 16, 2010.

Phoenix obtained additional registration approval from the BOI under the Oil Deregulation Law for its Calaca, Batangas Terminal. This entitled the parent company to an income tax holiday on the revenue activities from this additional storage capacity for five (5) years starting February 2010. Another BOI registration was granted to the Davao Terminal expansion facility effective February 2010, which entitled the parent company another set of incentives, including the five (5) year income tax holiday on its Davao Terminal marketing and storage activities.

Phoenix was also registered with the BOI on November 25, 2010 as a new industry participant with new investment in storage, marketing and distribution of petroleum products under the Oil Deregulation Law for its storage tanks in Talisayan, Zamboanga City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. This expired on November 25, 2015.

The parent company also obtained new approvals with the BOI for its two (2) new facilities. Both the Cagayan de Oro City and the Bacolod City facilities were registered and issued certification by the BOI on May 12, 2012, entitling the Parent Company an income tax holiday for five (5) years from registration plus other fiscal and non-fiscal incentives accorded to BOI-registered entities.

Phoenix also obtained new approvals with the BOI for its four (4) new facilities. Expansions of Cagayan de Oro City and Calaca, Batangas facilities were registered and issued certification by the BOI on November 24, 2017 and December 22, 2017, respectively. New facilities in Tayud, Cebu and Calapan, Mindoro were likewise registered and issued certification by the BOI on September 9, 2017 and October 12, 2017, respectively, entitling the parent company an income tax holiday for five (5) years from registration plus other fiscal and non-fiscal incentives accorded to BOI-registered entities. These additional income tax holiday incentives will allow the Company to enjoy an effective income tax rate well below 30% as it continuously expands its storage and obtains further incentives from the BOI.

### **Financial Condition as of December 31, 2017 versus December 31, 2016**

Total resources of the Group as of December 31, 2017 stood at ₱44.471 billion, higher by 68% compared to the ₱26.538 billion as of December 31, 2016. This is due to the acquisition of PLPI and

Duta, higher fuel prices, increase in inventory, completion of new retail stations and increase of delivery and storage assets.

Cash and cash equivalents this year decreased by 22% from ₱2.339 billion in December 31, 2016 to ₱1.831 billion as a result of increased operating, acquisition and expansion requirements. Trade and other receivables decreased by 15% from ₱8.789 billion as of December 31, 2016 to ₱7.510 billion as of December 31, 2017, due to the intensified collection of credit sales and other receivables.

Inventories increased to ₱12.970 billion as of December 30, 2016 from ₱2.999 billion as of December 31, 2016. The increase is brought about by the confluence of the following factors: 1) to address requirements of new businesses, such as LPG with the purchase of PEPI, the operation of PNX SG and serving volume of new accounts; 2) higher price of imported petroleum products, mainly because of the increase in crude prices and 3) the continued decrease in demand for intermediate fuel oil by the power sectors also contributed to the higher inventory levels.

Due from related parties decreased to ₱518 million as of December 2017 from ₱1.507 billion as of December 2016. The receivable balance from UDEVCO amounting to ₱50 million for the sale of PPIPC was settled and reclassification of the non-trade receivable from CSC amounting to ₱500 million.

As of December 31, 2017, the Group's property and equipment, net of accumulated depreciation, increased to ₱13.401 billion compared to ₱9.002 billion as of December 31, 2016 due to the acquisition of PEPI and Duta, Inc. as well as the completion of the new retail stations, additional delivery and storage assets and various facility expansion of the group.

Loans and borrowings, both current and non-current, increased by 114% from ₱13.184 billion as of December 31, 2016 to ₱28.171 billion as of December 31, 2017. The increase of ₱14.987 billion was from the acquisition of PEPI and Duta, investment in PNX SG, increased inventory value and other capital expenditures of the group.

Trade and other payables increased by 20% from ₱3.333 billion as of December 31, 2016 to ₱3.863 billion as of December 31, 2017 due to longer supplier credit term.

Total stockholders' equity increased to ₱11.952 billion as of December 31, 2017 from ₱9.762 billion as of December 31, 2016, resulting from the earnings generated in 2017 net of cash dividend declared and paid during the period for both common shares and preferred shares. The sale of treasury shares and the ESOP also contributed to the increase. The sale of treasury shares increased additional paid in capital by ₱367 million while the ESOP increased the common shares by ₱2.761 million and the additional paid in capital by ₱21.351 million.

## Key Performance Indicators and Relevant Ratios

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

	December 31, 2017	December 31, 2016
Current Ratio <sup>1</sup>	1.22 : 1	1.17 : 1
Debt to Equity Ratio <sup>2</sup>	2.72 : 1	1.72 : 1
Net Book Value per Share <sup>3</sup>	6.60 : 1	5.08 : 1
Debt to Equity Interest-Bearing <sup>4</sup>	2.36 : 1	1.35 : 1
Return on Equity <sup>5</sup>	16.5%	11.0%
Earnings per Share <sup>6</sup>	1.16	0.64
Earnings per Share (net of one-time gain) <sup>7</sup>	0.89	0.64

<sup>1</sup> Total current assets / current liabilities

<sup>2</sup> Total liabilities / tangible net worth

<sup>3</sup> Total stockholder's equity (net of Preferred) / total number of shares issued and outstanding

<sup>4</sup> Interest Bearing Debt / total stockholder's equity (net of Preferred)

<sup>5</sup> Period or Year net income / average total stockholder's equity

<sup>6</sup> Period or Year Net income after tax / weighted average number of outstanding common shares

<sup>7</sup> Period or Year Net income after tax (net of one-time gain) / weighted average number of outstanding common shares

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

The Group's debt to equity ratio for 2017 is higher at 2.72:1 due to increased liability used for the acquisition of PEPI and Duta, investment in PNx SG, capital expenditures for various expansions and increased inventory requirement.

## Causes for any Material Changes (5% or more) in the Financial Statements

### Balance Sheet Items – December 31, 2017 versus December 31, 2016

#### 22% decrease in Cash and Cash Equivalents

A result of increased operating, acquisition and expansion requirements. The cash and cash equivalent is within the maintained minimum level to support the operating requirement of the Group.

#### 15% decrease in Trade and Other Receivables

Due to the intensified collection of credit sales and other receivables.

#### 333% increase in Inventory

The increase is brought about by the confluence of the following factors: 1) to address requirements of new businesses, such as LPG with the purchase of PEPI, the operation of PNx SG and serving volume of new accounts; 2) higher price of imported petroleum products, mainly because of the increase in crude prices and 3) the continued decrease in demand for intermediate fuel oil by the power sectors also contributed to the higher inventory levels.

#### 66% decrease in Due from a Related Party

Collection of the receivable balance from UDEVCO for the sale of PPIP amounting to ₱50 million and reclassification of the ₱500 million to non-trade receivable from CLC for the sale of CSC.

141% increase in Net Input Vat  
Due to increase in inventory purchases.

49% increase in Property, Plant and Equipment  
Due to the acquisition of PEPI and Duta, as well as the completion of the retail stations and expansion of various facilities.

100% increase in Investment Property  
Due to the acquisition and appraisal of the fair value of the investment properties of Duta and Kaparangan.

38,941% increase in Goodwill  
Due to the acquisition of PEPI and Duta.

402% increase in Deferred Tax Assets  
Due to the additions from the newly-acquired subsidiaries.

39% decrease in Other Non-current Assets  
Due to additions from the newly-acquired subsidiaries.

49% increase in Current Interest-bearing Loans  
Due to the increase in inventory requirement.

20% increase in Trade Payable  
Due to the extended supplier credit terms.

492% increase in Non-current Interest-bearing Loans  
Used for the acquisition of PEPI and Duta, investment in PNX SG and various capital expenditure requirements.

93% Increase in Other Non-current Liabilities  
Increase in security deposit from new customers especially with the additions from LPG business.

30% increase in Capital Stock  
Due to the sale of treasury shares and the ESOP.

7% increase in Additional Paid-in Capital  
Due to the sale of treasury shares and the ESOP.

36% increase in Retained Earnings  
Due to earnings generated in 2017 net of the dividends paid both to common and preferred shares.

#### *Income Statement Items – December 31, 2017 versus December 31, 2016*

49% increase in Sale of Goods  
Due to the increase in volume, increase in fuel prices, addition of the LPG business and sale coming from PNX SG.



66% decrease in Fuel Service, Shipping, Storage Income, and Other Revenue

There are no more charter fees, sale of real estate and port revenues after the spin-off of CSC and PPIPC.

51% increase in Cost of Sales

As a result of the increase in revenue, volume and fuel prices.

32% increase in Selling and Administrative Expenses

Driven by the Group's expansion and acquisition program that resulted in higher depreciation, rent expense, salaries and wages, taxes and licenses and professional fees.

16% decrease in Finance Costs

Most of the financing transactions were made towards the latter part of the year to fund acquisitions and investments. Moreover, a material portion of the 2016 finance cost was from the spun-off subsidiaries.

73% decrease in Finance Income

The decrease is on account of the depreciation of foreign exchange at year-end which resulted in lower forex gain.

100% decrease in Equity Share in Net Loss of a Joint Venture

The joint venture was part of the spun-off subsidiary in 2016.

100% increase in Excess of Fair Value over Acquisition Cost

Due to the acquisition of Duta, which has investment properties with higher appraisal value versus the acquisition cost inclusive of its novated advances from PEPI in favor of PPPI.

640% Increase in Other Income

Due to other income coming from PLPI and Duta related to reversals of previously recognized impairments and allowances.

Recognition of Pre-acquisition Profit

This refers to the income of PEPI and Duta from January to July 2017, prior to the completion of the acquisition.

19% increase in Income Tax

Due to additions from the newly-acquired subsidiaries, expiration of certain income tax holiday certificates net of the effect of the new approvals.

8% decrease in Re-measurement of Post-employment Benefit Obligation

Due to the sale of CSC and PPIPC net of the increase from PLPI.

100% increase in Translation Adjustment

This comes from the forex translation of PNX SG to PHP.

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

## **RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016 VERSUS DECEMBER 31, 2015**

### **Revenues**

The Group generated total revenues of ₱30.577 billion in 2016, 2% higher than 2015's ₱30.054 billion, on the back of a 25% increase in sales volume and improved product mix in favor of higher margin products. This however, was tempered by the 19% decline in average fuel prices.

Sales revenues from trading and distribution of petroleum products increased by 4% from ₱28.621 billion in 2015 to ₱29.472 billion in 2016. Retail volume (station sales) increased by 12% due to growth in both station network and same store sales. The commercial and industrial segment also increased by 33%, while aviation volume grew by 14%. Lubricants volume also grew by 18% from the prior year.

Phoenix has built five hundred five (505) Phoenix retail service stations as of December 31, 2016 compared to four hundred fifty-four (454) retail stations as of the same period last year. The parent company has a number of retail stations undergoing various stages of construction which are projected to be opened within the 1st half of 2017.

The Group generated revenues of ₱1.104 billion from fuel service, shipping, storage, port, real estate, and others in 2016, down from ₱1.433 billion in 2015. The 23% year-on-year decline was mainly due to the ₱456 million in sale of real estate in 2015 versus none in 2016. Moreover, results of CSC and PPIPC were consolidated only from January to November.

### **Cost and Expenses**

The Group recorded cost of sales and services of ₱25.124 billion as of December 2016, a decrease of 0.1% from ₱25.269 billion in 2015. This was due to lower product costs compared to last year, reflecting lower global oil prices. Prices continued its generally downward movement from the second quarter of 2015 until first quarter of 2016, which only then, started to recover.

Selling and administrative expenses increased by 23%, driven by higher depreciation for completed expansions, as well as increases in rent expense, salaries and wages, taxes and licenses, and professional fees in relation to the expansion program of the Group.

### **Net Income**

The Group's net income for 2016 grew to ₱1.092 billion from ₱905.868 million in 2015. Growth was driven primarily by higher sales volume, higher efficiencies in trading and supply management, and higher service revenues.

The parent company was registered with the BOI on November 16, 2005 as a new industry participant with new investments in storage, marketing and distribution of petroleum products under the Oil Deregulation Law and, as such, enjoyed an income tax holiday for five (5) years from November 16, 2005 to November 16, 2010.

Phoenix obtained additional registration approval from the BOI under the Oil Deregulation Law for its Calaca, Batangas Terminal. This entitled the parent company to an income tax holiday on the revenue activities from this additional storage capacity for five (5) years starting February 2010. Another BOI registration was granted to the Davao Terminal expansion facility effective February 2010, which entitled the parent company another set of incentives, including the five (5) year income tax holiday on its Davao Terminal marketing and storage activities.

Phoenix was also registered with the BOI on November 25, 2010 as a new industry participant with new investment in storage, marketing and distribution of petroleum products under the Oil Deregulation Law for its storage tanks in Talisayan, Zamboanga City. Under its registration, the Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987. This expired on November 25, 2015.

The parent company also obtained new approvals with the BOI for its two (2) new facilities. Both the Cagayan de Oro City and the Bacolod City facilities were registered and issued certification by the BOI on May 12, 2012, entitling the parent company an income tax holiday for five (5) years from registration plus other fiscal and non-fiscal incentives accorded to BOI-registered entities. These additional income tax holiday incentives will allow the Company to enjoy an effective income tax rate well below 30% as it continuously expands its storage and obtains further incentives from the BOI.

### **Financial Condition as of December 31, 2016 versus December 31, 2015**

Total resources of the Group as of December 31, 2016 stood at ₱26.538 billion, lower by 14% compared to the ₱30.926 billion as of December 31, 2015. This is mainly due to the sale of the subsidiaries, resulting in the deconsolidation of the carrying values of CSC and PPIPC.

Cash and cash equivalents this year increased by 43% from ₱1.632 billion in December 31, 2015 to ₱2.339 billion due to the net proceeds from sale of the subsidiaries and increased collections towards year-end net of payment of outstanding interest-bearing debt.

Trade and other receivables decreased by 19% from ₱10.810 billion as of December 31, 2015 to ₱8.789 billion as of December 31, 2016, due to the intensified collection of credit sales and other receivables and the deconsolidation of related receivables from the sale of the subsidiaries.

Inventories increased by 14% to ₱2.999 billion as of December 30, 2016 from ₱2.638 billion as of December 31, 2015, driven by the timing of arrival of importations. The Group targets to maintain an average of one-month worth of inventory to ensure stable supply in retail stations and commercial/industrial clients. However, the actual level varies depending on the actual arrival dates of the fuel tankers.

Due from related parties increased to ₱1.507 billion as of December 2016 from ₱12.260 million as of December 2015, arising from the receivable balance from UDEVCO amounting to ₱50 million for the sale of PPIPC and from CLC amounting to ₱500 million for the sale of CSC. The change also included reclassification of accounts following the sale of the subsidiaries, CSC and PPIPC.

As of December 31, 2016, the Group's property and equipment, net of accumulated depreciation, decreased to ₱9.002 billion compared to ₱12.823 billion as of December 31, 2015 due to the sale of the subsidiaries that resulted in the deconsolidation of the related assets of CSC and PPIPC.

Loans and borrowings, both current and non-current, decreased by 22% from ₱16.983 billion as of December 31, 2015 to ₱13.184 billion as of December 31, 2016. The decrease of ₱3.799 billion was from the settlement of loans, which include the payments of interest-bearing debt from the proceeds of the sale of subsidiaries. Also contributing to the decline was the decrease in trade payables and the deconsolidation of the related loans and borrowings of CSC and PPIPC following the sale.

Trade and other payables decreased by 2% from ₱3.578 billion as of December 31, 2015 to ₱3.333 billion as of December 31, 2016 due to longer supplier credit term.

Total stockholders' equity decreased to ₱9.762 billion as of December 31, 2016 from ₱10.023 billion as of December 31, 2015, resulting from the earnings generated in 2016 net of cash dividend declared and paid during the period for both common shares and preferred shares. The deconsolidation of CSC and PPIPC also contributed to the decrease.

### Key Performance Indicators and Relevant Ratios

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

	December 31, 2016	December 31, 2015
Current Ratio <sup>1</sup>	1.17 : 1	1.14 : 1
Debt to Equity Ratio <sup>2</sup>	1.72 : 1	2.09 : 1
Net Book Value per Share <sup>3</sup>	6.81 : 1	6.89 : 1
Debt to Equity Interest-Bearing <sup>4</sup>	1.35 : 1	1.69 : 1
Return on Equity <sup>5</sup>	11.0%	10.6%
Earnings per Share <sup>6</sup>	0.64	0.60

<sup>1</sup> Total current assets / current liabilities

<sup>2</sup> Total liabilities / tangible net worth

<sup>3</sup> Total stockholder's equity (net of Preferred) / total number of shares issued and outstanding

<sup>4</sup> Interest Bearing Debt / total stockholder's equity (net of Preferred)

<sup>5</sup> Period or Year net income / average total stockholder's equity

<sup>6</sup> Period or Year Net income after tax / weighted average number of outstanding common shares

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

The Group's debt to equity ratio for 2016 is lower at 1.72:1 due to the sale of the subsidiaries resulting in the deconsolidation of the related accounts of CSC and PPIPC.

### Causes for any Material Changes (5% or more) in the Financial Statements

#### Balance Sheet Items – December 31, 2016 versus December 31, 2015

##### 43% increase in Cash and Cash Equivalents

A result of the net proceeds from the sale of the subsidiaries, as well as the timing of collections and disbursements during the period offset by proceeds used to pay out interest-bearing debt. Minimum levels of cash are also maintained to support maturing obligations.

##### 14% increase in Inventory

Due to the timing of arrival of importations, additional product lines, and the prices of petroleum.

##### 19% decrease in Trade and Other Receivables

Due to improved collection efforts and higher customer management efficiency. Also contributing to the decline was the sale of the subsidiaries, which resulted in the deconsolidation of the trade and other receivables of CSC and PPIPC.

12,191% increase in Due from a Related Party

Attributable to the receivable balance from the sale of CSC to CLC amounting to ₱500 million and from UDEVCO for the sale of PPIPC amounting to ₱50 million. The change also included reclassification of accounts following the sale of the subsidiaries, CSC and PPIPC.

28% increase in Restricted Deposit

Due to the sale of subsidiaries resulting in the deconsolidation of CSC and PPIPC.

6% decrease in Net Input Vat

Due to the sale of subsidiaries resulting in the deconsolidation of CSC and PPIPC.

30% decrease in Property, Plant and Equipment

Due to the sale of subsidiaries resulting in the deconsolidation of CSC and PPIPC.

280% increase in Intangible Assets

Due to the acquisition of a basketball franchise as part of the Group's brand enhancement initiatives.

100% decrease in Land Held for Future Development

Due to sale of subsidiaries resulting in the deconsolidation of PPIPC.

100% decrease in Investment in a Joint Venture

Due to sale of subsidiaries resulting in the deconsolidation of PPIPC.

88% decrease in Goodwill

Due to sale of subsidiaries resulting in the deconsolidation of PPIPC and CSC.

100% increase in Deferred Tax Assets

Due to sale of subsidiaries resulting in the deconsolidation of related accounts of PPIPC and CSC.

43% decrease in Other Non-current Assets

Due to sale of subsidiaries resulting in the deconsolidation of related accounts of PPIPC and CSC.

63% decrease in Non-current Interest-bearing Loans

Due to the early settlement of Long-Term Debt using the proceeds from the sale of CSC and PPIPC.

100% decrease in Non-current Trade and Other Payables

Due to sale of subsidiaries resulting in the deconsolidation of the related accounts of PPIPC and CSC.

100% decrease in Deferred Tax Liability

Due to sale of subsidiaries resulting in the deconsolidation of the related accounts of PPIPC and CSC.

5% Increase in Other Non-current Liabilities

Increase in security deposit from new customers.

23% decrease in Capital Stock

Due to treasury shares acquisition amounting to ₱330.6 million.

17% increase in Other Reserves

Due to the sale of the sale and subsequent deconsolidation of PPIPC and CSC.

23% increase in Retained Earnings

Due to earnings generated in 2016 net of the dividends paid both to common and preferred shares, as well as the sale and deconsolidation of PPIPC and CSC.

*Income Statement Items – December 31, 2016 versus December 31, 2015*

23% decrease in Fuel Service, Shipping, Storage Income, and Other Revenue

Due to the ₱456 million revenues from sale of real estate in 2015 versus none in 2016.

23% increase in Selling and Administrative Expenses

Driven by the Group's expansion program that resulted in higher depreciation, rent expense, salaries and wages, taxes and licenses, and professional fees.

5% increase in Finance Costs

Increase in the number of financing transactions.

2,649% increase in Finance Income

Due to forex gains arising from US\$-denominated revenues.

21% Increase in Other Income

Due to growth in non-fuel related business.

207% Increase on Equity Share in Net Loss of a Joint Venture.

Attributable to the equity share of PPIPC in South Pacific, Inc. for the eleven months ending November 30, 2016.

9% decrease in Income Tax

Due to increase in deferred tax assets arising from unrealized and non-taxable income.

15% decrease in Re-measurement of Post-employment Benefit Obligation

Due to the sale of CSC and PPIPC.

100% decrease on the Revaluation of Tankers under OCI

Due to the sale of CSC and PPIPC and their deconsolidation in December 2016.

65% decrease on the Tax Expense on Other Comprehensive Income

Due to the absence of revaluation of tankers under OCI following the sale of CSC.

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

## DIRECTORS, EXECUTIVE OFFICERS AND CONTROL PERSONS

The following section sets forth the persons who served as a director and/or executive officer of the Company as of June 30, 2018.

<b>BOARD OF DIRECTORS</b>	
Chairman	Domingo T. Uy
Director, President and Chief Executive Officer	Dennis A. Uy
Director, Vice Chairman	Romeo B. De Guzman
Director	Stephen T. CuUnjieng
Director, Treasurer	Joseph John L. Ong
Director	Cherylyn C. Uy
Director	J.V. Emmanuel A. de Dios
Director	Frederic C. DyBuncio
Independent Director	Carolina Inez Angela S. Reyes
Independent Director	Consuelo Ynares Santiago
Director	Monico V. Jacob

<b>OTHER EXECUTIVE OFFICERS</b>	
Chief Finance Officer	Ma. Concepcion F. de Claro
Chief Operating Officer	Henry Albert R. Fadullon
Corporate Secretary	Socorro T. Ermac Cabreros
Assistant Corporate Secretary	Gigi Q. Fuensalida-Ty

### BOARD OF DIRECTORS

The Company's members of the Board of Directors are herewith described with their respective experiences during the past five (5) years.

#### **Domingo T. Uy** **Chairman**

Mr. Domingo T. Uy, Filipino, 71 years old, is a co-founder and has been a member of the Board of Directors of the Company since 2002. Mr. Uy was elected Chairman of the Board of Directors of the Company on February 15, 2007. He is also a Director of Granland Resources Corporation, a corporation involved in real estate development. Mr. Uy is actively involved in socio-civic programs and is a Director of the Philippine National Red Cross, Davao Chapter. He is also a Past President of the Davao City Sta. Ana Lions Club and the Kang Ha Uy Association - Davao Chapter.

#### **Dennis A. Uy** **Director, President and Chief Executive Officer**

Mr. Dennis A. Uy, Filipino, 45 years old, is the founder of the Company and has served as President and Chief Executive Officer since inception. He is the Chairman and President of Udenna Corporation, the parent company, which has businesses in the shipping, logistics, distribution, real estate, and service industries. Among the subsidiaries of Udenna Corporation are Phoenix Petroleum Holdings, Inc. (PPHI), Udenna Management & Resources Corp. (UMRC), Chelsea Logistics Corp., Udenna Investments BV, and Udenna Trade Corporation. The subsidiaries of Phoenix Petroleum Philippines are Phoenix Global Mercantile, Inc., Subic Petroleum Trading & Transport Philippines, Inc., and PFL

Petroleum Management. The subsidiaries of Udenna Management & Resources Corp. (UMRC) are Udenna Development Corporation (UDEVCO), Global Synergy Trade and Distribution Corp., Value Leases, Inc., Udenna Capital, PNX-Udenna Insurance Brokers, Udenna Environmental Services, Udenna Energy Corporation, and F2 Logistics. Under UDEVCO are Phoenix Petroterminals & Industrial Park Corp. (PPIPC), Udenna Tower Corporation, and Go Hotels Davao. The Chelsea Logistics Corp. has the shipping businesses Chelsea Shipping Corp. and Trans-Asia Shipping Lines. Mr. Uy is also Chairman of Phoenix Philippines Foundation and Udenna Foundation. He is director of shipping and logistics provider 2Go Group, Inc. through his Udenna Investments BV subsidiary KGLI-NM Holdings Inc. He also serves as independent director of Apex Mining Corp. Mr. Uy is a member of the Young Presidents Organization's Philippine chapter and the Philippine Business for Social Progress. Since November 2011, Mr. Uy has been the Honorary Consul of Kazakhstan to the Philippines. In 2016, he was appointed as the Presidential Adviser on Sports. He is a graduate of De La Salle University with a degree in Business Management.

**Romeo B. De Guzman**  
**Director, Vice Chairman**

Mr. Romeo B. De Guzman, Filipino, 68 years old, was elected Director of the Company in 2009. He is the Vice Chairman and Senior Strategic Adviser, and previously was Chief Operating Officer of the Company, bringing over 40 years of outstanding experience in the oil industry. Before joining the Company, he was with Pilipinas Shell Petroleum Corporation, where he was Vice President for External Affairs for Asia Pacific and a member of the Board of Directors up to December 2006. He was with the said company holding various management and executive positions. Prior to that, he worked at Getty Oil Philippines Inc. for 10 years. Mr. De Guzman is also the Chairman of the Board of Directors of Mirait Philippines, Inc. He holds a Marketing Management and MBA degrees from San Sebastian College – Manila.

**Stephen T. CuUnjieng**  
**Director**

Stephen T. CuUnjieng, Filipino, 58 years old, was elected as a Director of the Company on January 15, 2018, after being a long-time adviser to the Board. He is Chairman of Evercore Asia Limited, and has substantial and wide experience in investment banking. He has acted as Financial Adviser to several financial transactions of companies involving initial public offerings, major and strategic acquisitions, and mergers of various companies from various industries. He is a member of the Executive Advisory Board for Asia of the Wharton School of Business, and an Independent Director of Century Properties Group and Aboitiz Equity Ventures. He has received several awards and distinctions, such as the Best Independent Advisory Firm in Asia in 2016 for Evercore, and Deals of the Year for various acquisitions. He graduated from Ateneo de Manila University and Ateneo School of Law, and completed an MBA in Finance from the Wharton School of Business.

**Joseph John L. Ong**  
**Director and Treasurer**

Mr. Joseph John L. Ong, Filipino, 59 years old, is the Director, Treasurer and Head of Corporate Finance of the Company. He is also a member of the Board of Directors of South Pacific, Inc., an affiliate of the Company. Prior to his employment in the Company, he spent almost 10 years at Primeworld Digital Systems, Inc. (Pacific Internet Phils.) initially as Vice President and CFO and eventually as Executive Vice President – Operations and Chief Finance Officer from 2008 - 2009. He also worked for 12 years with Ginebra San Miguel, Inc., then known as La Tondeña Distillers, Inc., the country's second largest beverage company at the time and a listed subsidiary of San Miguel Corporation. He was its Vice



President for Treasury from 1995 – 1999, at which time he headed the team that took the company public in 1994 and was primarily responsible for institutional-investor relations. Prior to the San Miguel Group, he held various positions at the Bank of the Philippine Islands and Ayala Investment & Development Corp. (before it merged with BPI) from 1980-1986. He received his Bachelor of Science in Commerce from De La Salle University in 1980.

**Cherylyn C. Uy**  
**Director**

Ms. Cherylyn Chiong-Uy, Filipino, 39 years old, is a graduate of Business and Finance from Ateneo de Davao University. Ms. Uy is one of the pioneers/incorporators of Udenna Corporation, the ultimate parent company of Phoenix Petroleum, and which has subsidiaries engaged in the petroleum, shipping, logistics, services, and real estate businesses, among others. She is the Corporate Treasurer of Udenna Corporation. Ms. Uy is also one of the Executive Directors of Phoenix Philippines Foundation, Inc., the corporate social responsibility arm of the Company. She is the Corporate Treasurer of Udenna Management and Resources Corporation and Chelsea Shipping Corp.

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

Atty. J.V. Emmanuel A. De Dios, Filipino, 53 years old, was elected independent director of the Company on February 15, 2007 and regular director on March 7, 2008. He is the CEO of GE Philippines, and prior to that was President and CEO of Nido Petroleum Pty Ltd., an Australian Stock Exchange-listed oil and gas company. He was Managing Director of Merritt Advisory Partners, Inc. and was a member of the Board of Directors of Davies Energy Systems, Inc. He also served as Chairman of the Board of the Philippine National Oil Company Exploration Corporation and was former Undersecretary of the Philippine Department of Energy. Atty. De Dios obtained his Master of Laws degree from Harvard Law School and completed his Bachelor of Laws at the Ateneo School of Law.

**Frederic C. DyBuncio**  
**Director**

Mr. Frederic C. Dy Buncio, Filipino, 57 years old, was elected as a Director of the Company on May 27, 2017. He is the President of SM Investments Corporation. He is a Director of Atlas Consolidated Mining and Development Corporation, Premium Leisure Corp., 2GOGroup, Inc., and Pacific Online Systems Corporation. Prior to holding the post, he was a career banker who spent over 20 years with JP Morgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Business Management and completed a Master's degree in Business Management from the Asian Institute of Management.

**Carolina Inez Angela S. Reyes**  
**Independent Director**

Carolina Inez Angela S. Reyes, Filipino, 56 years old, is the owner and Co-Chief Executive Officer of Reyes Barbecue, a popular chain of more than 50 barbecue-focused restaurants founded by her husband, Francisco Reyes. Before taking charge at Reyes Barbecue in 2008, Ms. Reyes spent 20 years as a corporate marketing executive, where she distinguished herself by revitalizing and energizing brands. From 1994 to 1999, she held the following positions in La Tondeña Distillers, Inc.: Vice-President Marketing Services; Vice-President Marketing and Sales Non-Liquor (Bottled Water & Juices), Assistant Vice-President and Area Sales Director. From 1999 to 2002, Ms. Reyes also worked in The Coca-Cola Export Corporation as its Division Marketing Director of Non-Carbonated Beverages Business Unit and Director for Alternative Beverages. From July 2002 to October 2007, Ms. Reyes served as the Vice-President for Marketing of Jollibee Foods Corporation. She took her Masters in Business Administration from De La Salle University Graduate School of Business, graduated from the University of the Philippines (Diliman) with a degree in A.B. Economics, and took a short course at the Culinary Institute of America in New York.

**Consuelo Ynares-Santiago**  
**Independent Director**

Ms. Consuelo Ynares-Santiago, Filipino, 78 years old, is a Retired Justice of the Philippine Supreme Court. Justice Santiago (Ret) is currently an independent director of Anchor Insurance Brokerage Corp., a leading insurance brokerage company based in New York, USA, SMC Global Power Holdings, Inc., one of the country's leading power companies which is the power generation unit of San Miguel Corporation, South Luzon Tollway Corp., and Top Frontier Investment Holdings, Inc. She is the Chair Advisory Council of the Office of Alternative Dispute Resolution under the Department of Justice. She earned her Law Degree at the University of the Philippines. After being admitted to the bar, she started her career as a Legal Officer of the Securities and Exchange Commission (SEC). After 5 years of legal practice, she decided to enter the Judiciary and spent 36 years of her career as Municipal Judge, Metropolitan Trial Court judge, Regional Trial Court judge, and Associate Justice of Court of Appeals, before becoming an Associate Justice of the highest court of the country, the Supreme Court. During her time in the Supreme Court, she became the chairperson of the Supreme Court's 3rd Division and also joined various committees, among them the Justice on Wheels Program as Chairperson, the Foreign Travel Committee as Chairperson, the House of Representative Electoral Tribunal (HRET) as Chairperson, and member of the Presidential Electoral Tribunal. She was also a consultant of the Judicial and Bar Council (JBC) and a Bar Examiner of Labor Law and Social Legislation during the 1996 Bar Examination and Taxation Law in the 1998 Bar Examination.

**Monico V. Jacob**  
**Director**

Monico V. Jacob, Filipino, 72 years old, has been a Director of the Company since March 7, 2008. He is President and Chief Executive Officer of the STI Education Systems Holdings, Inc., a publicly listed company; of STI Education Services Group, Inc.; and of West Negros University. He is also the Chairman of Philplans First, Inc., a pre-need company; of Philippine Life Financial, Inc., a life insurance company, and of Republic Surety and Insurance Co., a non-life insurance Company. He likewise sits as an independent director of Jollibee Foods, Inc., Century Properties, Lopez Holdings, Inc. and 2GO Shipping. He sits as Director of Asian Terminals, Inc., Philhealthcare Systems, Inc., an HMO, Philippine Women's University and IAcademy.

**Period of Directorship in the Company**

<b><u>Name</u></b>	<b><u>Period of Service</u></b>
Domingo T. Uy	incorporation to present
Dennis A. Uy	incorporation to present
Romeo B. De Guzman	2009 to present
Stephen T. CuUnjieng	2018 to present
Joseph John L. Ong	2013 to present
Cherylyn C. Uy	2004 to 2006, 2013 to present
J.V. Emmanuel A. De Dios	2007 to present
Frederic C. DyBuncio	2017 to present
Carolina Inez Angela S. Reyes	2016 to present
Consuelo Ynares-Santiago	2013 to present
Monico V. Jacob	2008 to present

## **EXECUTIVE OFFICERS**

The Company's executive officers are herewith described with their respective experiences during the past five (5) years.

**Ma. Concepcion F. de Claro**, Filipino, 61 years of age is the Chief Financial Officer of the Company since May 2018. She is concurrently the Vice President for Mergers and Acquisitions, and Treasury Head for Udenna Corporation, and is a member of the Board of Directors and Treasurer of Enderun Colleges, Inc., ADF Restaurant 101, Inc. She is on the Board of 2Go Group, Inc., Sagittarius Mines, Inc., Negros Navigation Company, and South Pacific, Inc. From the years 2011 to 2017 she was the Chief Operating Officer of Alsons Corporation and sat on the Board of Directors of the same company and in Alsons Power Holdings Corporation, and Alsons Prime Investments Corporation as well. From the years 2004 to 2009 Ms. de Claro held various positions in Petron Corporation, from Controller to Vice President for Corporate Planning and Services, and sat in the Board of Directors of Petron Marketing Corporation and Petron Freeport Corporation. Ms. de Claro graduated from Colegio de San Juan de Letran with a degree in Bachelor of Science, Major in Commerce.

**Henry Albert R. Fadullon**, Filipino, 50 years of age, was appointed Chief Operating Officer of the Company on April 17, 2017. Prior to this, he served Shell Shared Services(Asia) B.V. as General Manager for its global businesses. He has over 25 years of experience in the petroleum industry, having held various roles at Pilipinas Shell Petroleum Corp., a decade of which were spent overseas with postings in Malaysia, Oman, and London. He has a wealth of experience in Retail and B2B performing a variety of frontline and functional roles leading into General Management positions. He completed his BS Industrial Management Engineering, minor in Mechanical Engineering, from De La Salle University.

**Socorro T. Ermac-Cabrerros**, Filipino, 53 years old, is concurrently the Assistant Vice President for Corporate Legal and Corporate Secretary of the Company. She is also the Corporate Secretary Phoenix Petroleum Holdings, Inc. Prior to joining the Company, she was a Legal Counsel of Philippine National Bank in Davao City. She has worked for the government such as Office of the Ombudsman for Mindanao and later as Prosecutor for the Province of Davao del Norte after engaging in the private practice of law. She finished her law degree at the Ateneo de Davao University College of Law. She was President for the Davao City Chapter of the Integrated Bar of the Philippines, Davao City Chapter from 2009-2011 and President of the Davao Lady Lawyers Association from 2000-2002.

**Gigi Q. Fuensalida-Ty**, Filipino, 41 years old, is presently the Assistant Corporate Secretary of the Company. Prior to her employment with the Company, she was one of the Senior Associates of the Villaraza Cruz Marcelo and Angangco Law Office. For six (6) years, Atty. Fuensalida specialized in Civil, Commercial and Criminal Litigation wherein she developed strategies for complex litigation and actively participated in the prosecution and defense of criminal cases before the regular trial courts, quasi-judicial bodies and the appellate courts. Atty. Fuensalida holds a degree in Bachelor of Arts Major in Political Science from the Ateneo de Manila University. She further obtained her Juris Doctor degree from the same institution and graduated with honors in 2002. Atty. Fuensalida is a member of the Integrated Bar of the Philippines since 2003.

#### **Period of Service in the Company**

<u><b>Name</b></u>	<u><b>Period of Service</b></u>
Ma. Concepcion F. de Claro	2018 to present
Henry Albert R. Fadullon	2017 to present
Socorro Ermac-Cabreros	2006 to present
Gigi Q. Fuensalida-Ty	2008 to present

#### **FAMILY RELATIONSHIPS**

With the exception of Messrs. Domingo T. Uy and Dennis A. Uy who are related to each other by consanguinity within the first civil degree, Debbie Uy-Rodolfo and Mr. Dennis Uy, who are related to each other by consanguinity within the second civil degree, Cherylyn C. Uy and Dennis A. Uy, who are spouses and related to each other by affinity, Domingo T. Uy and Cherylyn C. Uy who are related to each other by affinity, and Domingo T. Uy and Debbie Uy-Rodolfo who are related to each other by consanguinity within the first civil degree, and Cherylyn C. Uy and Debbie Uy-Rodolfo, who are related to each other by affinity, there are no other family relationships either by consanguinity or affinity up to the fourth civil degree among the directors, executive officers, and persons nominated and chosen by the Company to become directors and executive officers of the Company.

#### **SIGNIFICANT EMPLOYEES**

No single person is expected to make a significant contribution to the Company's business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

#### **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

The Company's independent director, Monico V. Jacob, in his capacity as then Chairman of Petron Corporation, was impleaded in a case together with some government officials for Violation of Republic Act 3019 otherwise known as the Anti-Graft and Corrupt Practices Act involving tax credit payments. The case has been dismissed by the Sandiganbayan, Fourth Division, Quezon City in a Resolution dated March 2, 2017. The dismissal of the case has not been subject of a motion for reconsideration or an appeal and hence, became final.

The Department of Justice (DOJ) filed twenty-five (25) Informations against Dennis A. Uy, President and CEO of the Company, for alleged violations of the Tariff and Customs Code of the Philippines,

twenty-two (22) of which were filed with the Regional Trial Court of Davao City, and three (3) Informations filed with the Regional Trial Court of Batangas City.

With respect to the Informations filed with the Regional Trial Court of Batangas City, Mr. Uy filed an Omnibus Motion for the Determination of Lack of Probable Cause on September 2, 2013. The Regional Trial Court of Batangas City granted the said motion on September 17, 2013 and dismissed all three (3) Informations. The DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge Ruben A. Galvez, and was subsequently denied on December 6, 2013. On July 7, 2014, the Regional Trial Court of Batangas City issued a Certificate of Finality certifying that the Orders dated December 6, 2013 and September 17, 2013, were already final and executory, since no appeal was filed therefrom.

With respect to the Informations filed with the Regional Trial Court of Davao City, on October 4, 2013, the Regional Trial Court of Davao City ordered the dismissal of the criminal cases against Mr. Uy. The subsequent Motion for Reconsideration of the Plaintiff, People of the Philippines, was also denied in an Order dated August 18, 2014. Hence, the People of the Philippines ("Petitioner") filed on October 27, 2014 with the Court of Appeals (CA), Cagayan de Oro City a Petition for Certiorari under Rule 65 of the Rules of Court docketed as CA G.R. SP No. 06500-MIN CA, CDO, 23rd Division. On October 24, 2016, Mr. Uy received a copy of the CA Decision dated October 12, 2016 denying the Petition for Certiorari. On November 10, 2016, Mr. Uy received a copy of the Motion for Reconsideration filed with the CA.

On January 25, 2017, the CA issued a Resolution denying the Petitioner's Motion for Reconsideration and upholding its earlier decision.

On April 4, 2017, the Company received a copy of the Petition for Review on Certiorari dated March 27, 2017 filed by the Petitioner docketed as GR No. 229705, SC, Manila, 3rd Division. To date, the Supreme Court has yet to issue a resolution directing the Respondents, including Mr. Uy, to Comment on the Petition for Certiorari.

Several complaints for Grave Coercion, Robbery and Libel were filed against the Sales Team of South Mindanao and other officers, including all the members of the Board of Directors except for Domingo T. Uy, Paul G. Dominguez and Carolina Inez Angela S. Reyes, in relation to the Company's closure and take-over of six (6) Phoenix Fuel Stations in Davao City. To date, these complaints have been dismissed by the Davao City Prosecutor's office.

Other court cases typical and customary in the course of the business operations of the Company such as those, among others, involving collection, qualified theft, breach of contract and reckless imprudence, tax and regulatory matters have been filed by and against the Company, by and against its employees/directors/officers and/or third parties. The results of which will not significantly affect the financial standing of the Company.

Except for the above, to the best of the Company's knowledge there has been no occurrence during the past five (5) years up to the date of this Report of any of the following events:

- (i) Any insolvency or bankruptcy petition filed by or against the Company or any of its directors or officers or any business of which such person was a director, general partner or executive officer either at the time of the insolvency, bankruptcy and any other similar proceedings or within two years prior to that time;
- (ii) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(iii) Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and

(iv) Any final and executory judgment by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

Further, the Company or any of its officers and directors have not become the subject of legal proceedings for suspension of payments or other debt relief within the past five (5) years, or otherwise becomes unable to pay its debts as they mature or shall make or threaten to make an assignment for the benefit of, or a composition or arrangement with, creditors or any class thereof, or shall declare a moratorium on indebtedness.

## EXECUTIVE COMPENSATION

The Company's executives are regular employees and are paid a compensation package of 12 months pay plus the statutory 13<sup>th</sup> month pay. They also receive performance bonuses similarly to that of the managerial, supervisory and technical employees. The members of the Board of Directors who are not employees of the company are elected for a period of one (1) year. They receive compensation on a per meeting participation. There are no other arrangements for which the members of the Board of Directors are compensated.

### SUMMARY OF COMPENSATION TABLE FOR THE YEAR-ENDING DECEMBER 31, 2017

Name	Principal Position	Salaries (in thousand ₱)	Bonuses / 13 <sup>th</sup> Month / Other Income (in thousand ₱)	Total (in thousand ₱)
Dennis A. Uy	President and Chief Executive Officer	40,412	3,368	43,779
Henry Albert R. Fadullon	Chief Operating Officer			
Joseph John L. Ong	Chief Finance Officer			
Alan Raymond T. Zorilla	VP – External Affairs, Business Development and Security			
William M. Azarcon	VP – Business Development for Terminals and Depots			
All other officers and directors as a group unnamed		25,452	2,121	27,573

## SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

As of June 30, 2018, the following are the number of shares owned of record by the Company's Board of Directors and key executive officers:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent (of total outstanding shares)
<b>Directors</b>				
Common	Dennis A. Uy	(direct) 4,349,811	Filipino	0.30%
Common	Cherylyn C. Uy	(direct) 1,098,099	Filipino	0.08%
Common	Domingo T. Uy	(direct) 645,919	Filipino	0.05%
Common	Romeo B. De Guzman	(direct) 1,325,746	Filipino	0.09%
Common	J.V. Emmanuel A. De Dios	(direct) 1,300,819	Filipino	0.09%
Common	Joseph John L. Ong	(direct) 520,836	Filipino	0.04%
Common	Consuelo Ynares Santiago	(direct) 1	Filipino	0.00%
Common	Monico V. Jacob	(direct) 1	Filipino	0.00%
Common	Frederic C. DyBuncio	(direct) 1	Filipino	0.00%
Common	Carolina Inez Angela S. Reyes	(direct) 1	Filipino	0.00%
Common	Stephen R. CuUnjieng	(direct) 1	Filipino	0.00%
<b>Senior Management</b>				
Common	Gigi Q. Fuensalida Ty	(direct) 125,980	Filipino	0.01%
Common	Socorro T. Ermacabrerros	(direct) 103,316	Filipino	0.01%

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% to total I/O shares
<b>Directors</b>				
Preferred	Domingo T. Uy	(direct) 10,000	Filipino	0.05%
Preferred	Romeo B. De Guzman	(direct) 25,000	Filipino	0.13%
Preferred	Consuelo Ynares Santiago	(direct) 10,000	Filipino	0.05%
Preferred	Joseph John L. Ong	(direct) 30,000	Filipino	0.15%

The other executive officers of the Company, Alan Raymond T. Zorrilla – VP for External Affairs, Business Development and Security; Ericson Inocencio – General Manager for Retail Business; Joselito De Jesus – General Manager for Business Development, Strategies and Portfolio Unit; William M. Azarcon – Vice President for Business Development for Terminal and Depot; Ma. Rita A. Ros – Assistant Vice President for Supply; Reynaldo A. Phala – Assistant Vice President for Treasury; Richard Tiansay – General Manager for Pricing and Demand; Roy Jimenez – General Manager for Commercial and Industrial Business; Celina I. Matias – Assistant Vice President for Brand and Marketing; Celeste Marie G. Ong – Assistant Vice President for Human Resources; Jonarest Z. Sibog – Assistant Vice President for Comptrollership; Debbie A. Uy-Rodolfo – Assistant Vice President for Customer Service Unit and Corporate Communications and Joven Jesus G. Muiar – General Manager for Lubricant Sales and Distribution Business own common shares in scripless form through the Company's Employees Stock Option Plan (ESOP) issued on July 26, 2017 and November 15, 2017.

The number of aggregate shares held by the current directors and executive officers of the Company is Ten Million Eighty-Nine Thousand Three Hundred Eighty-One (10,089,381) for common shares and Seventy-Five Thousand (75,000) for preferred shares.



Other than those mentioned above, there are no persons holding more than five percent (5%) of a class under a voting trust or any similar agreements as of the date of this Report.

There are no arrangements that may result in a change in control of the Company.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with subsidiaries, affiliates, and/or other members of the Udenna Group principally consisting of the sale and purchase of goods and services, advances and reimbursement of expenses, lease agreements of real estate properties, Contracts of Affreightment, administrative service agreements, and other contracted services.

These transactions entered with related parties are made on a reasonable arms-length terms as would be obtained from third-party providers.

Transactions that have been entered into by the Company and its subsidiaries with related parties for the years ended December 31, 2017, 2016 and 2015 are disclosed in Note 27 to the Company's audited consolidated financial statements, which are included in this Prospectus.

With the exception of Messrs. Domingo T. Uy and Dennis A. Uy who are related to each other by consanguinity within the first civil degree, Debbie Uy-Rodolfo and Mr. Dennis Uy, who are related to each other by consanguinity within the second civil degree, Cherylyn C. Uy and Dennis A. Uy, who are spouses and related to each other by affinity, Domingo T. Uy and Cherylyn C. Uy who are related to each other by affinity, and Domingo T. Uy and Debbie Uy-Rodolfo who are related to each other by consanguinity within the first civil degree, and Cherylyn C. Uy and Debbie Uy-Rodolfo, who are related to each other by affinity, there are no other family relationships either by consanguinity or affinity up to the fourth civil degree among the directors, executive officers, and persons nominated and chosen by the Company to become directors and executive officers of the Company.

## DESCRIPTION OF DEBT

As of June 30, 2018, Phoenix has ₱30.0 billion of outstanding interest-bearing loans and borrowings, which are broken down as follows:

	June 30, 2018	December 31, 2017
Current:		
Liabilities under Letters of Credit and Trust Receipts	₱ 2,731,179,486	₱ 5,139,141,223
Term Loans	15,357,600,000	11,657,732,922
	18,088,779,486	16,796,874,145
Non-current:		
Term Loans	11,903,941,851	11,374,559,853
	₱ 29,992,721,337	₱ 28,171,433,998

### LIABILITIES UNDER LETTERS OF CREDIT AND TRUST RECEIPTS

Phoenix avails of letters of credit and trust receipt lines with local banks to finance its purchases of inventories. These short-term trust receipts bear interests based on prevailing market interest rates at an average of 4.25% and 3.97% per annum as of June 30, 2018 and December 31, 2017, respectively.

### BORROWINGS AND REPAYMENTS

During the period, the Company obtained various term loans with banks in the total amount of ₱40,519.3 million with outstanding balance as of June 30, 2018 of ₱27,261.5 million. As of June 30, 2018, the loans bear interest ranging from 3.075% to 6.2105% and are repayable in various dates until November 10, 2022.

As of June 30, 2018, repayments of other term loans amounting to ₱28,483.6 million were made in line with previously disclosed repayment terms.

Further details on the Company's debt are set forth in the Notes to the Financial Statements of the Company's audited consolidated financial statements for the year 2017 and unaudited consolidated financial statements as of June 30, 2018 found in the "Financial Information" section of this Prospectus.

### DEBT COVENANTS

Under existing loan agreements, Phoenix is required to maintain certain financial ratios which are set out below.

Ratio	Requirement
Current ratio	Not less than [1.10]x
Interest coverage ratio	Not less than [1.50]x
Debt to equity ratio	Not more than [3.00]x
Long-term debt to EBITDA	Not more than [6.00]x

## CORPORATE GOVERNANCE

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

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

On July 31, 2014, pursuant to SEC Memorandum Circular No. 9, series of 2014, the Company submitted its revised Governance Manual expounding on definition of terms including defining the role of the Board of Directors in corporate governance and emphasis on policies pertaining to independent checking on management. Further, in compliance with SEC Memorandum Circular No. 19, Series of 2016 and SEC Memorandum Circular No. 8, Series of 2017, the Company has submitted its Code of Corporate Governance to the SEC on 31 May 2017 (the “**Code of Corporate Governance**”).

The Company’s Code of Corporate Governance contains the framework of rules, systems and processes in the Company that governs the performance by the Board of Directors and the management of their respective duties and responsibilities to the stockholders. It mandates the creation of specific board committees in aid of good corporate governance, i.e. a corporate governance committee, board risk oversight committee, and related party transaction committee and requires the Board of Directors to commit itself to the protection of the rights of stockholders. The board committees established under the Code of Corporate Governance are in addition to the board committees constituted under the By-laws of the Company, i.e. an executive committee, a nomination committee, an audit committee and a compensation committee.

The Company’s executive committee shall be composed of at least three (3) members, at least three (3) of whom must be members of the Board of Directors. The executive committee, in accordance with the Company’s by-laws and by majority vote of all of its members, acts on specific matters within the competence of, or as may be delegated by the Board of Directors except as specifically limited by law to the Board of Directors.

The Company’s nomination committee shall be composed of at least three (3) members of the Board of Directors, one of whom shall be an independent director. The nomination committee shall review and evaluate the qualifications of all persons nominated to the Board of Directors, as well as those nominated to other positions requiring appointment by the Board of Directors. 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 Company’s information or proxy statement or such other reports required by the SEC.

The Company's audit committee shall be composed of at least three (3) appropriately qualified non-executive members of the Board of Directors, preferably majority of whom are independent. All members must have relevant background, knowledge and experience in areas of accounting, finance and audit. The Company's audit committee has oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.

The Company's compensation committee shall be composed of at least three (3) members of the Board of Directors, one of whom shall be an independent director. The compensation committee shall ensure that levels of remuneration shall be sufficient to attract and retain the directors and officers needed to run the Company successfully. A proportion of executive directors' or officers' remuneration may be structured so as to link rewards to corporate and individual performance. It also establishes a formal procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers and provides oversight over remuneration of senior management and other key personnel.

The corporate governance committee shall have the responsibility in assisting the Board in the performance of and compliance with corporate governance responsibilities including the functions that formerly belongs to the nominations and remuneration committee. The committee shall be composed on at least three (3) member, all of whom preferably independent directors, including the chairperson.

The board risk oversight committee shall be responsible for the oversight of the Company's enterprise risk management system to ensure its functionality and effectiveness. The committee shall be composed of at least three (3) members, majority of whom shall be independent directors, including the chairman. The chairman shall not be a chairman of the board or of any other committee. At least one member of the committee must have relevant knowledge and/or experience on risk and risk management.

The related party transaction committee shall be primarily tasked to review of all material related party transactions of the Company. The committee shall be composed on at least three (3) non-executive directors, two of whom shall be independent directors including the chairman.

The following are the members of each of the aforementioned committees of the Company as of June 30, 2018:

**Executive Committee**

Dennis A. Uy	Chairman
Romeo B. De Guzman	Member
Joseph John L. Ong	Member
Raymond T. Zorrilla	Member
Henry Albert R. Fadullon	Member
Ma. Concepcion F. de Claro	Member

**Audit Committee**

Carolina Inez Angela S. Reyes	Chairman
Consuelo Ynares-Santiago	Member
Domingo T. Uy	Member

**Nominations & Governance Committee**

Romeo B. De Guzman	Chairman
Caorlina Inez Angela S. Reyes	Member
Consuelo Ynares-Santiago	Member

**Board Risk Oversight Committee**

Consuelo Ynares-Santiago	Chairman
Dennis A. Uy	Member
Carolina Inez Angela S. Reyes	Member
Monico V. Jacob	Member

**Related Party Transaction Committee**

Frederic Dybuncio	Chairman
J.V. Emmanuel A. de Dios	Member
Stephen T. CuUnjieng	Member
Consuelo Ynares-Santiago	Member

The Company 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. The Company's Code of Corporate Governance is posted in the Company's official website, [www.phoenixfuels.ph](http://www.phoenixfuels.ph)

## PHILIPPINE TAXATION

*The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Commercial Papers. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Commercial Papers and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Commercial Papers under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Commercial Papers in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.*

*The tax treatment of a holder of the Commercial Papers may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Commercial Paper Holder.*

**PROSPECTIVE PURCHASERS OF THE COMMERCIAL PAPERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A SECURITY, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.**

*As used in this section, the term "resident foreign individual" refers to an individual whose residence is within the Philippines and who is not a citizen thereof. A "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "domestic corporation" is created or organized under the laws of the Philippines; a "resident foreign corporation" is a non-Philippine corporation engaged in trade or business in the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business in the Philippines.*

### **Philippine Taxation**

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion (the "**TRAIN Law**") took into effect. The TRAIN Law amended provisions of the Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Capital Gains Tax on the sale and disposition of securities, Estate Tax, and Donor's Tax.

### **TAXATION OF INTEREST**

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine citizens, resident foreign individuals, domestic corporations, and resident foreign corporations from the Commercial Papers is subject to a final withholding tax at the rate of 20% based on the gross amount of the interest. Generally, interest on the Commercial Papers received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that

received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income derived by non-resident foreign corporations from the Commercial Papers is subject to a final withholding tax at the rate of 20%. The said income tax is withheld at source and constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates may be subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident Commercial Paper Holder. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment or perform in the Philippines professional services from a fixed base and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment or fixed base.

## **TAX EXEMPT STATUS**

Commercial Paper Holders who are exempt from, are not subject to final withholding tax on interest income, or are subject to a lower rate of final withholding tax may avail of such exemption or preferential rate by submitting the necessary documents. Said Commercial Paper Holder shall submit the following requirements, in form and substance prescribed by the Issuer, to the Registrar or to the Lead Underwriter or selling agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) a copy of the current and valid original tax exemption certificate, ruling or opinion (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time) issued by the BIR, addressed to the applicant confirming the exemption, and certified by an authorized officer of the applicant as being a true copy of the original on file with the applicant; (ii) a duly notarized undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the applicant purchases the Commercial Papers for its account, or (ii.b) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Commercial Papers pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Commercial Paper Holder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar and Paying Agent (a) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificates or preferential rate entitlement; (b) if there are any material changes in the factual circumstances of the Commercial Paper Holder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or (c) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Commercial Papers being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential rate, , and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and (iii) such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief, which shall include, (a) for initial interest due, duly accomplished and filed Certificate of Residence for Tax Treaty Relief (CORTT) Form or the prescribed certificate of residence of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8- 2017 and/or a duly notarized and consularized, if executed outside of the Philippines, Special Power of Attorney executed by the Commercial Paper Holder in favor of its authorized representative (if the CORTT Form and other



documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Commercial Paper Holder is not doing business in the Philippines to support the applicability of a tax treaty relief; and (b) for subsequent interests due, three originals of Part II (D) of the CORTT Form shall be submitted by the Commercial Paper Holder/Registrar to the Issuer no later than the first day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto and (iv) such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Commercial Paper Holder on the interest payments to such Commercial Paper Holder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Commercial Paper Holder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Commercial Paper Holders may transfer their PDEX-listed Commercial Papers at any time, regardless of tax status of the transferor vis-à-vis the transferee. Transfers taking place in the Register of Commercial Paper Holders after the Commercial Papers are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction provided the same are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. A selling or purchasing Commercial Paper Holder claiming tax-exempt status is required to submit the following documents to the Issuer, within three (3) Business Days from settlement date: (i) a written notification of the sale or purchase, including the tax status of the selling or buying party, and (ii) an indemnity agreement wherein the new Commercial Paper Holder undertakes to indemnify the Issuer for any tax that may later on be assessed from the Issuer on account of such transfer.

## **DOCUMENTARY STAMP TAX**

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Commercial Papers, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Commercial Papers, provided that the subsequent sale or disposition does not constitute a renewal or entail a change in the maturity date of the Commercial Papers.

## **TAXATION ON SALE OR OTHER DISPOSITION OF THE COMMERCIAL PAPERS**

### **Income Tax**

Ordinary asset – Any gain realized from the sale, exchange or retirement of Commercial Papers will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 20-35% effective January 1, 2018 until December 31, 2022 and

15%-35% effective January 1, 2023 for individuals or 30% for domestic and foreign corporations, as the case may be.

For non-resident alien not engaged in trade or business in the Philippines, the gain shall be subject to the 25% final withholding tax.

Gross income derived by non-resident foreign corporations on the sale or other disposition of the Commercial Papers is subject to a 30% income tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Any gains realized by non-residents on the sale of the Commercial Papers may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

### **Value-added Tax**

Gross receipts arising from the sale of the Commercial Papers in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Commercial Papers sold.

"Dealer in securities" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

### **Estate and Donor's Tax**

The transfer of Commercial Papers upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine estate taxes at a fixed rate of 6% based on the value of the decedent's net estate.

Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax on such a transfer of Commercial Papers at the rate of 6% computed on the basis of the total gifts in excess of ₱250,000.00 made during the calendar year.

The estate tax and the donor's tax, in respect of the Commercial Papers, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

**Taxation by Other Jurisdictions**

The tax treatment of a holder of the Commercial Papers by jurisdictions other than the Philippines may vary depending on the applicable tax laws and such holder's particular situation. This Prospectus does not discuss the tax considerations for holders of the Commercial Papers under the tax laws of jurisdictions other than those of the Philippines.

## GENERAL CORPORATE INFORMATION

### INCORPORATION

The Company, formerly known as Oilink Mindanao Distribution, Inc., is duly organized as a corporation under the laws of the Philippines and was registered with the SEC on May 8, 2002.

### ARTICLES OF INCORPORATION AND BY-LAWS

The article of incorporation of the Company was approved by the SEC on May 8, 2002 and was amended on the following dates: January 11, 2004, January 12, 2006, August 7, 2006, December 29, 2006, February 19, 2007, February 22, 2010, March 8, 2010, September 7, 2010, November 30, 2010, April 23, 2012 and November 12, 2012, May 21, 2018. On January 11, 2004, the Company amended its Articles of Incorporation changing its name from Oilink Mindanao Distribution, Inc. to “Davao Oil Terminal Services Corp.” On August 7, 2006, the SEC approved the Amended Articles of Incorporation of the Company changing its name from Davao Oil Terminal Services Corp. to “P-H-O-E-N-I-X Petroleum Philippines, Inc.” The latest amended articles of incorporation was approved by the SEC on May 21, 2018.

The by-laws of the Company were registered with the SEC on May 8, 2002, together with the articles of incorporation and was amended on February 19, 2007, February 22, 2009, November 30, 2010, September 19, 2011 and November 12, 2012.

### PRIMARY PURPOSE

Under the article of incorporation, the Company’s primary purpose is to “engage in, conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail, insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description and all merchandise, supplies, materials and articles, such as, but not limited to, petroleum, lubricants and other chemical products, as shall be necessary or expedient in conducting the business; to enter into all kinds of contracts for the export, import, purchase, acquisition for its own account as principal or in representative capacity as manufacturer’s representative, merchandise broker, commission merchant, factors or agents, upon consignment of all kinds of goods, wares, merchandise or products, whether natural or artificial.”

Based on the amended articles of incorporation, among the secondary purposes for which the Company is formed are “to engage in the business of operating oil depots, storage facility and allied services” and “to aid in any lawful manner, by loan, subsidy, guaranty or otherwise, any corporation whose stocks, bonds, notes, debentures or other securities or obligations are held or controlled, directly or indirectly, by the [Company].”

### CORPORATE TERM

The Company is authorized to exist for a term of 50 years from the date of its incorporation. This term may be renewed through an amendment to the articles of incorporation approved by the SEC.

### FISCAL YEAR

The fiscal year of the Company begins on the first day of January and ends on the last day of December of each year.

#### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the articles of incorporation and by-laws are available for inspection by the Company's stockholders at the principal office of the Company, during normal business hours on any day on which such office is open for business. Copies may also be inspected at the office of the SEC.

## FINANCIAL INFORMATION

The following pages set forth the Company's unaudited and audited consolidated financial statements for the period ended 30 June 2018, and as at December 31, 2017, 2016, and 2015 and for each of the years in the period ended December 31.