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whose life we touch



10 June 2020

Securities & Exchange Commission

Secretariat Building, PICC Complex
Roxas Blvd, Metro Manila

Philippine Stock Exchange

Disclosure Department
6/F PSE Tower, 28th Street corner 5th Avenue,
BGC, Taguig City, Metro Manila

Philippine Dealing & Exchange Corp.

Philippine Dealing & Exchange Corp.
29/F, BDO Equitable Tower,
8751 Paseo de Roxas, Makati City

Attention: Hon. Vicente Graciano P. Felizmenio, Jr.
Director, Market and Securities Regulation Department
Securities & Exchange Commission

Ms. Janet Encarnacion
Head - Disclosure Department
Philippine Stock Exchange

Atty. Marie Rose M. Magallen-Lirio
Head - Issuer Compliance and Disclosure Department (ICDD)

Sir and Mesdames:

We would like to submit the attached Press Release entitled "**Phoenix Petroleum rolls out long term cost and productivity initiatives**".

Thank you and warm regards.

Very truly yours,

Atty. Socorro Ermac Cabreros
Corporate Secretary

HEAD OFFICE: Phoenix Bulk Depot, Lanang, Davao City
8000 Philippines
Trunkline: +63 82 235 8888
Fax: +63 82 233 0168

MANILA OFFICE: 15th-17th Floors, UDENNA Tower, Rizal Drive cor. 4th Avenue,
Bonifacio Global City, Taguig 1634 Philippines
Trunkline: +63 2 403 4013
Fax: +63 2 403 4009

CEBU OFFICE: Phoenix Maguikay Gasoline Station, M.C. Briones Street,
National Highway, Maguikay, Mandaue City, Cebu 6014 Philippines
Telephone: +63 32 236 8168 / 236 8198

Phoenix Petroleum rolls out long term cost and productivity initiatives

As a result of its regular strategic review, Phoenix Petroleum is pursuing a cost and productivity program that will create leaner supply chain and logistics, improve productivity, and lower expense base. In addition to the earlier disclosed creation of a road transport subsidiary and consolidation of real estate ownership and management into its standalone 100%-owned company, Duta, Inc., the Company rationalized its lubricants and convenience store retailing supply chains.

Consolidating real estate management into Duta to enhance asset use and yields

While a non-core activity, real estate is a crucial lever in the Company's competitiveness with its 660 retail stations, 11 storage facilities, 72 FamilyMart stores, and two main business offices. Currently, real estate functions are embedded in the Company with varying interests spread across multiple business units.

"Under Duta, Inc., we are repositioning real estate as an integrated, dynamic portfolio that aligns real estate resources with competitive strategies and maximizes yield. As a 100%-owned but separate legal entity, Duta will have greater financial accountability as it will have its own organization, budget, and Board-approved KPIs," says Chief Finance Officer Dettie de Claro.

The Company acquires strategic properties for operations, including sites for its storage facilities and prime service stations, to minimize risks related to expiration of lease holdings. Further, the Company manages close to 500 leases within its retail and infrastructure network.

Duta shall be in charge of the inventory of owned and leased assets, management of real estate, particularly leases, and future purchase of strategic properties. In addition, it will identify and implement real estate synergies with Phoenix's other businesses. It will also co-develop with other real estate developers to achieve the properties' best use and yield.

To this end, shareholders earlier approved the investment of up to P4.9 billion worth of assets into Duta, Inc. over three years at the recent Annual Stockholders' Meeting. As of date, no transfer has been effected yet but changes to real estate management have started, which improved lease recoveries for CODO stations from 15% to 30% and increased non-fuel related business (NFRB) revenues.

Increasing Efficiency and Reducing Risks in Road Transport Operations

Commensurate to the Company's 12% average annual domestic volume growth since 2016, demand for its road transport capabilities has grown.

"Primary challenge for road transport has been the low availability of trucks and high attrition among drivers, which ultimately weighs on our efficiency and ability to deliver. Adding to the overall complexity is the increased exposure to health, security, safety, and environmental (HSSE) risks and capex for the fleet expansion. As the owner and manager of road transport assets, we carry the sole responsibility and liability," according to President Bong Fadullon.

At the Annual Stockholders' Meeting, shareholders approved the creation of a road transport subsidiary that can form strategic partnerships with well-established road transport operators, thus minimizing the risks and easing the capex burden. Road transport operations will then be effectively outsourced, which allows the Company to focus on its core sales activities.

"We did test runs already and we have seen the truck utilization improve from 0.75x to 1.5x trips per day. The same asset is producing twice the output," Fadullon added.

Rationalizing lubricants and FamilyMart supply chains

The Company undertook major supply chain rationalizations late 2019, which included shifting in-house operations for both lubricants and FamilyMart to 3rd party services. These amounted to up to P88 million in OPEX savings combined for both businesses over the next few years and P230 million in working capital release for lubricants alone. OPEX savings were mostly from permanent fixed cost reductions in warehouse rentals, staffing, and other logistics assets as well as increased efficiencies and elimination of pilferages, which are now borne by the 3rd party provider.

Continuous cost structure and productivity improvements

The latest approved corporate actions are in line with Phoenix Petroleum's continuing efforts to simplify operations and enhance productivity to ensure its long term sustainable growth.

"Our domestic opex were down 12% year-on-year in the 1Q20, which worked especially well for us during these times. We are already realizing gains from these initiatives. We will continuously challenge our cost structure and find ways to be more efficient and drive operational excellence," De Claro concluded.

#END

About Phoenix Petroleum

Phoenix Petroleum is engaged in the nationwide trading and marketing of refined petroleum products, including LPG and lubricants, operation of oil depots and storage facilities, hauling and into-plane services; convenience store retailing; and trading and supply.

With a vision to be an indispensable partner in the journey of everyone whose life it touches, Phoenix Petroleum is committed to deliver world-class services, empower people, and inspire every Filipino's entrepreneurial spirit.

Investor Relations Contact

Nikka Maloles, IR Manager
investors@phoenixfuels.ph