



SGV-UA&P Independent Audit of Oil Prices

Peter Lee U

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DOE



How reasonable are local pump prices?

- What is a reasonable price?
- This is not defined in law or economics.
- A bit like a beauty contest: beauty is in the eye of the beholder.
- But if prices are excessively high, profits should be great.



Three main approaches

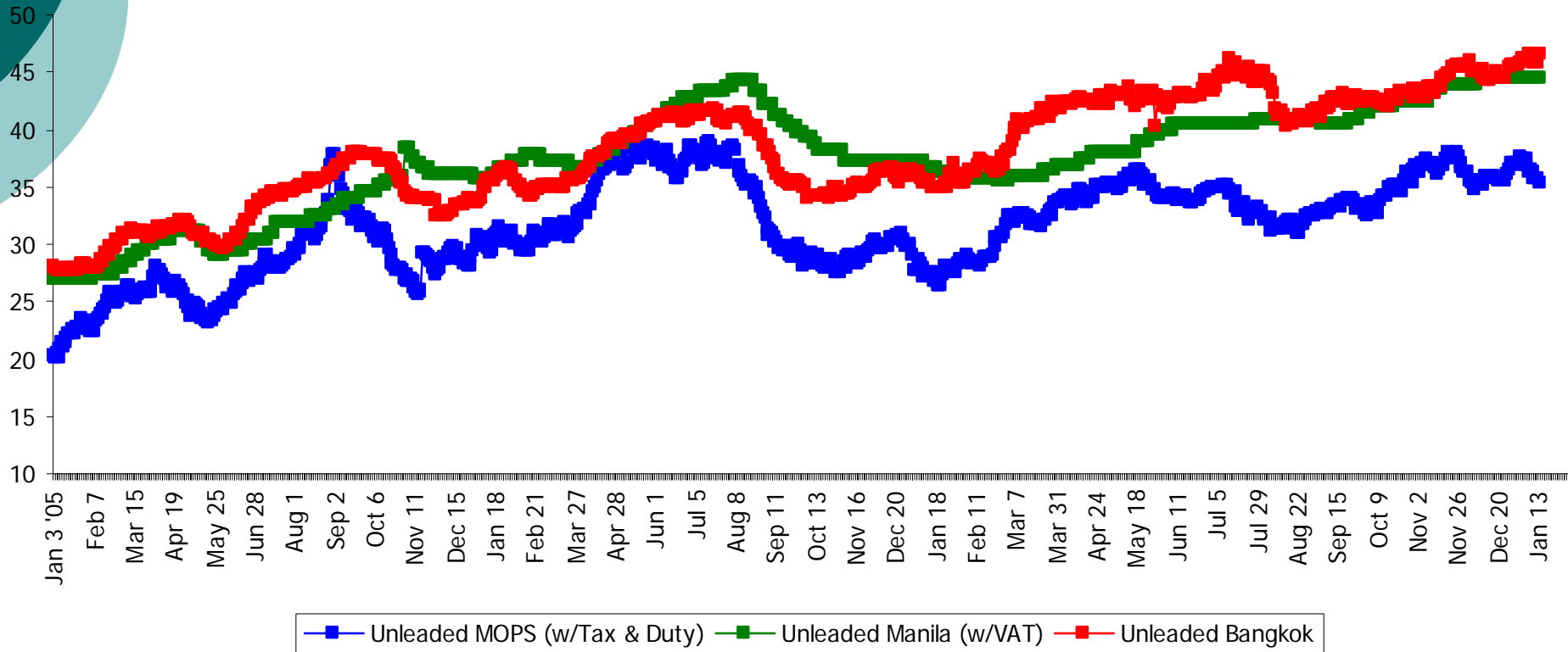
- Compare oil price movements (domestic pump price and international crude and refined prices)
 - Data suggests costs of oil companies went up more than pump price
 - Compare also with Thailand
- Cost build-up
 - Preliminary DOE figures here also suggest oil company/dealer/hauler take have gone down.
- Profitability of Oil firms
 - Look at ROE of oil firms for recent years
 - Stock market performance

Comparative Price Movements

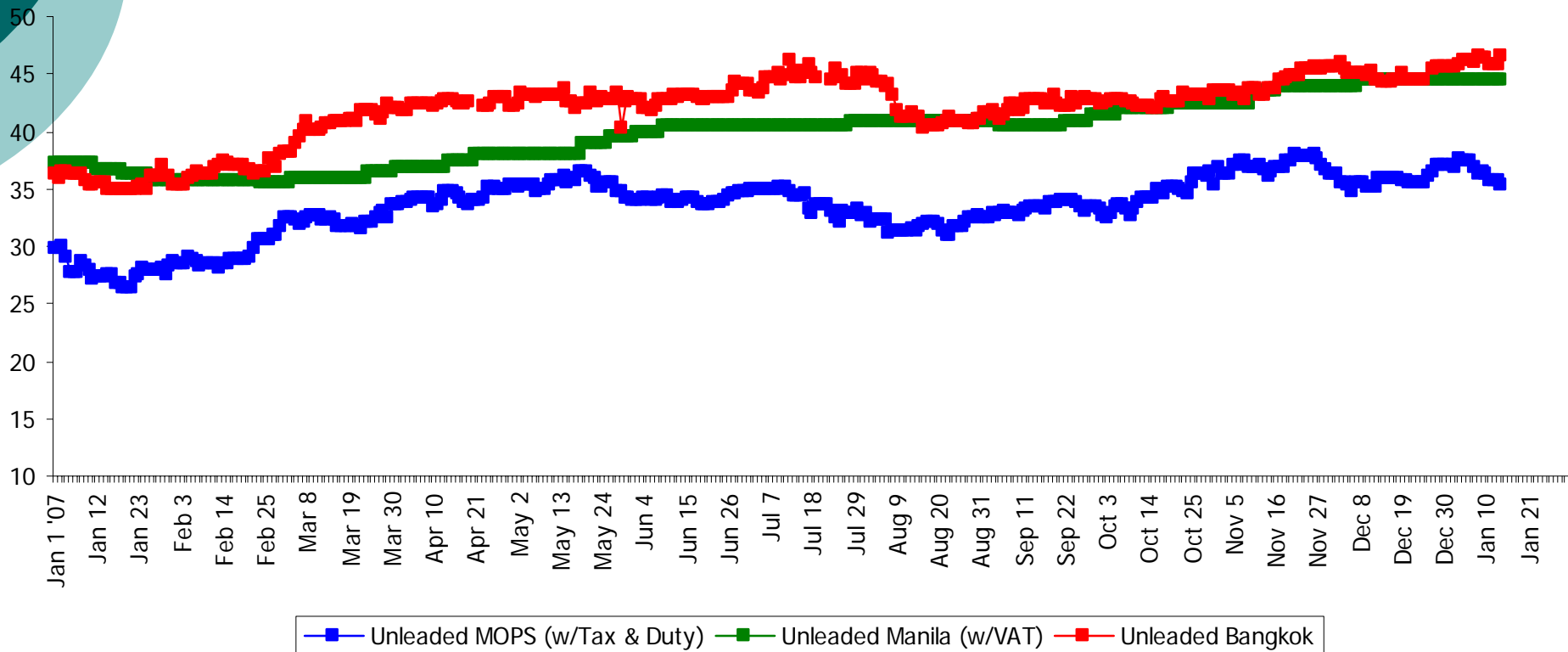
| | Prevailing Prices (Php/li, Php/kg) | | |
|----------|---------------------------------------|----------------|-------|
| | Dec 06 | Nov 19, 2007 | |
| | | | % inc |
| Gasoline | 37.24 | 43.95 | 18.0 |
| Diesel | 33.24 | 37.95 | 14.2 |
| LPG | 36.99 | 46.98 | 27.0 |
| | International Prices (Php/li, Php/kg) | | |
| | Dec 06 | Nov 1-16, 2007 | |
| | | | % inc |
| Gasoline | 21.19 | 26.99 | 27.4 |
| Diesel | 22.45 | 29.55 | 31.6 |
| LPG | 24.25 | 31.98 | 31.9 |

Strong Peso helped. International prices would have risen more if expressed in US \$.

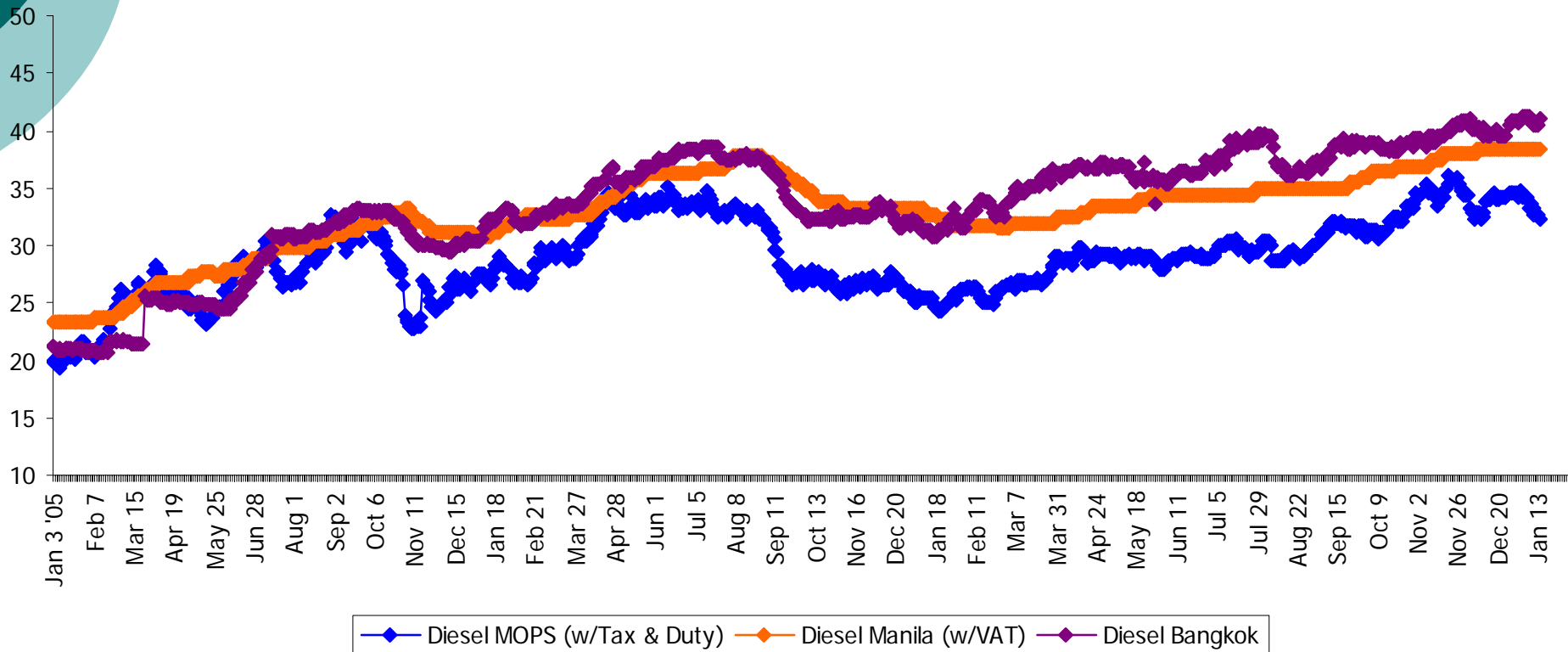
MOPS vs Bangkok vs Manila (Unleaded gasoline prices in PhP/liter)



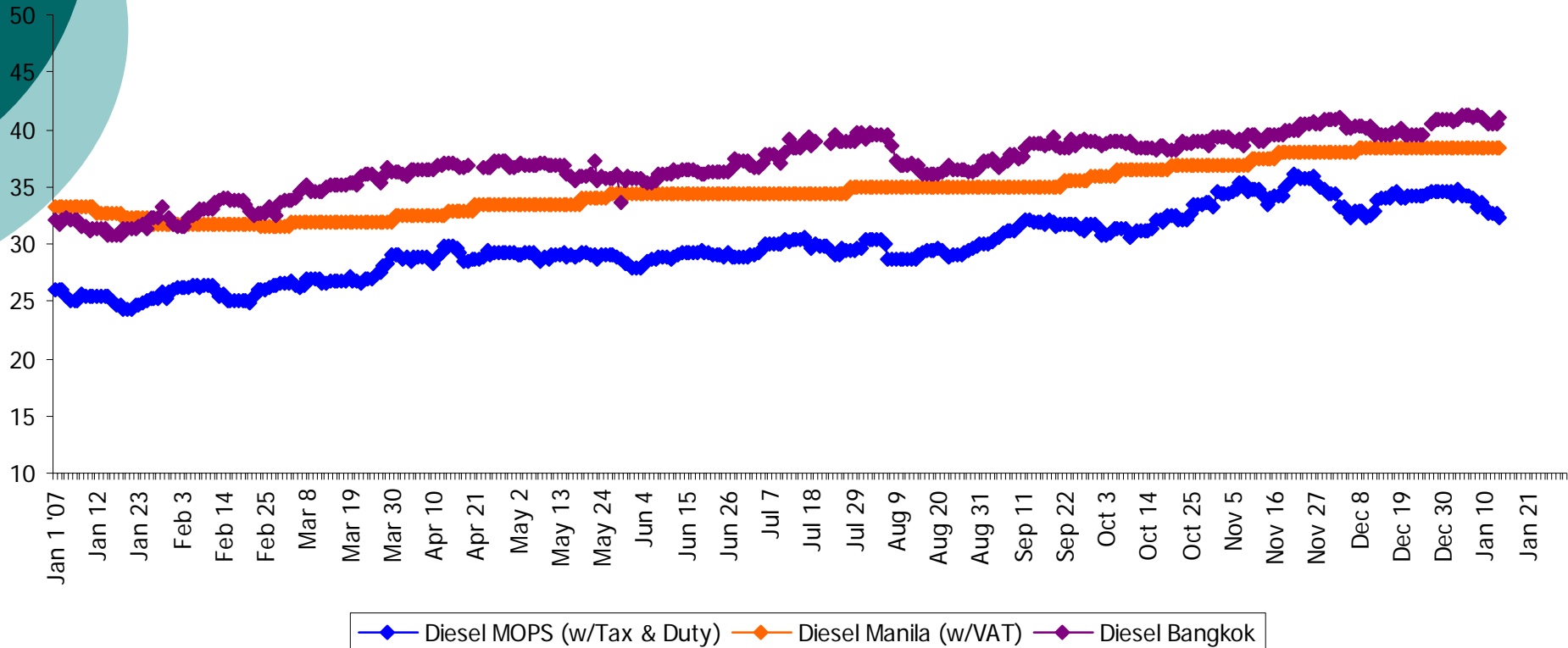
Same as previous but covering only 2007



MOPS vs Bangkok vs Manila (Automotive diesel prices in PhP/liter)



Same as previous but covering only 2007

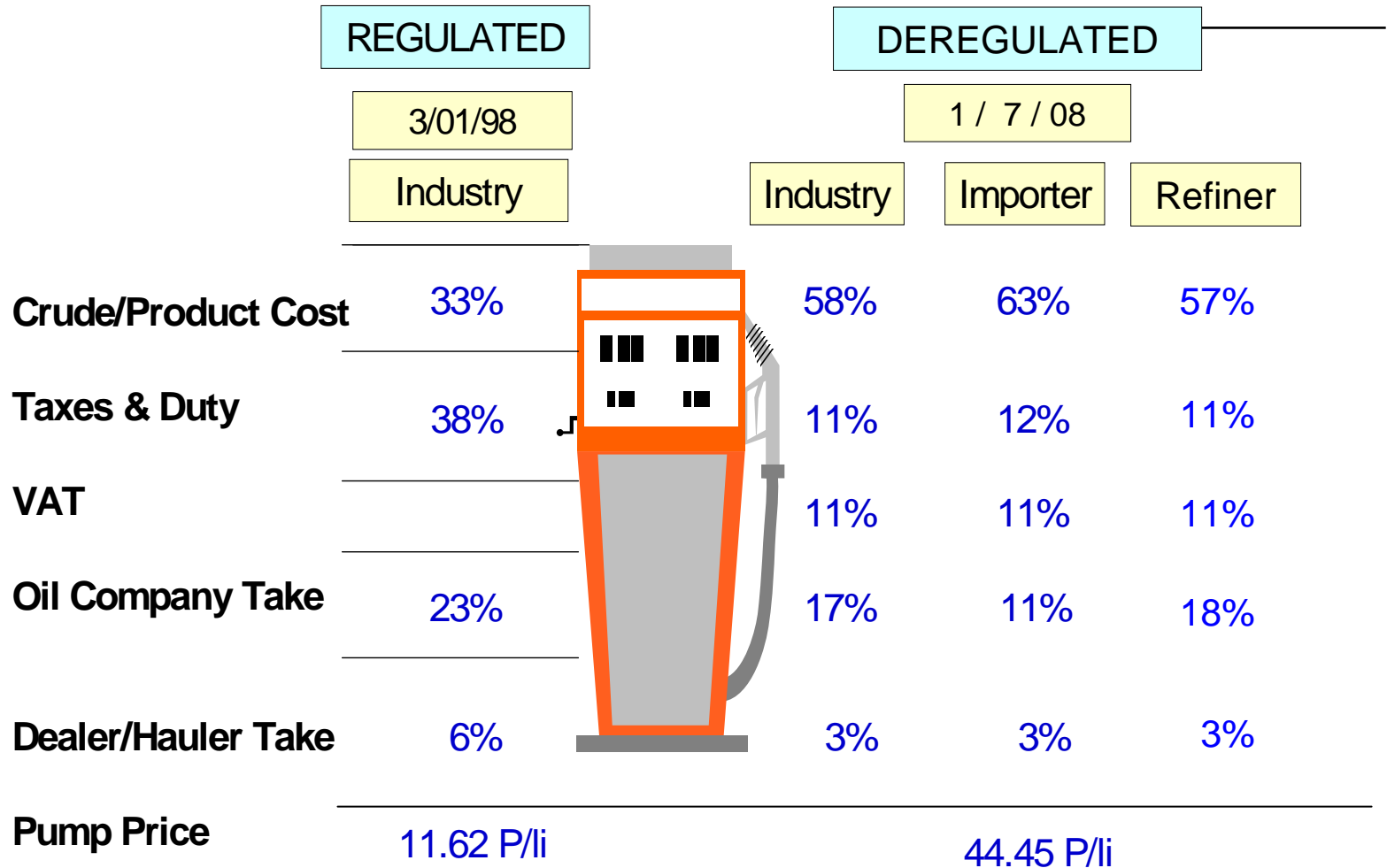


Some correlation statistics

| | REGRESSION RESULTS | |
|----------------------|--|----------------------------------|
| | <i>Dependent Variable: Unleaded Gasoline Price</i> | |
| | Manila (PhP/li) | Bangkok (Baht/li) |
| Intercept | 26.572 (34.07) | 16.315 (30.975) |
| MOPS Unleaded | 0.545 (16.79) | 0.709 (23.273) |
| r-square | 0.348 | 0.510 |
| F statistic | 281.876 | 541.628 |
| | <i>Dependent Variable: Automotive Diesel Price</i> | |
| | Manila (PhP/li) | Bangkok (Baht/li) |
| Intercept | 19.733 (35.181) | 12.250 (34.345) |
| MOPS Diesel | 0.581 (26.550) | 0.734 (37.956) |
| r-square | 0.572 | 0.735 |
| F statistic | 704.888 | 1440.666 |



WHAT DO WE PAY FOR IN A LITER OF GASOLINE?

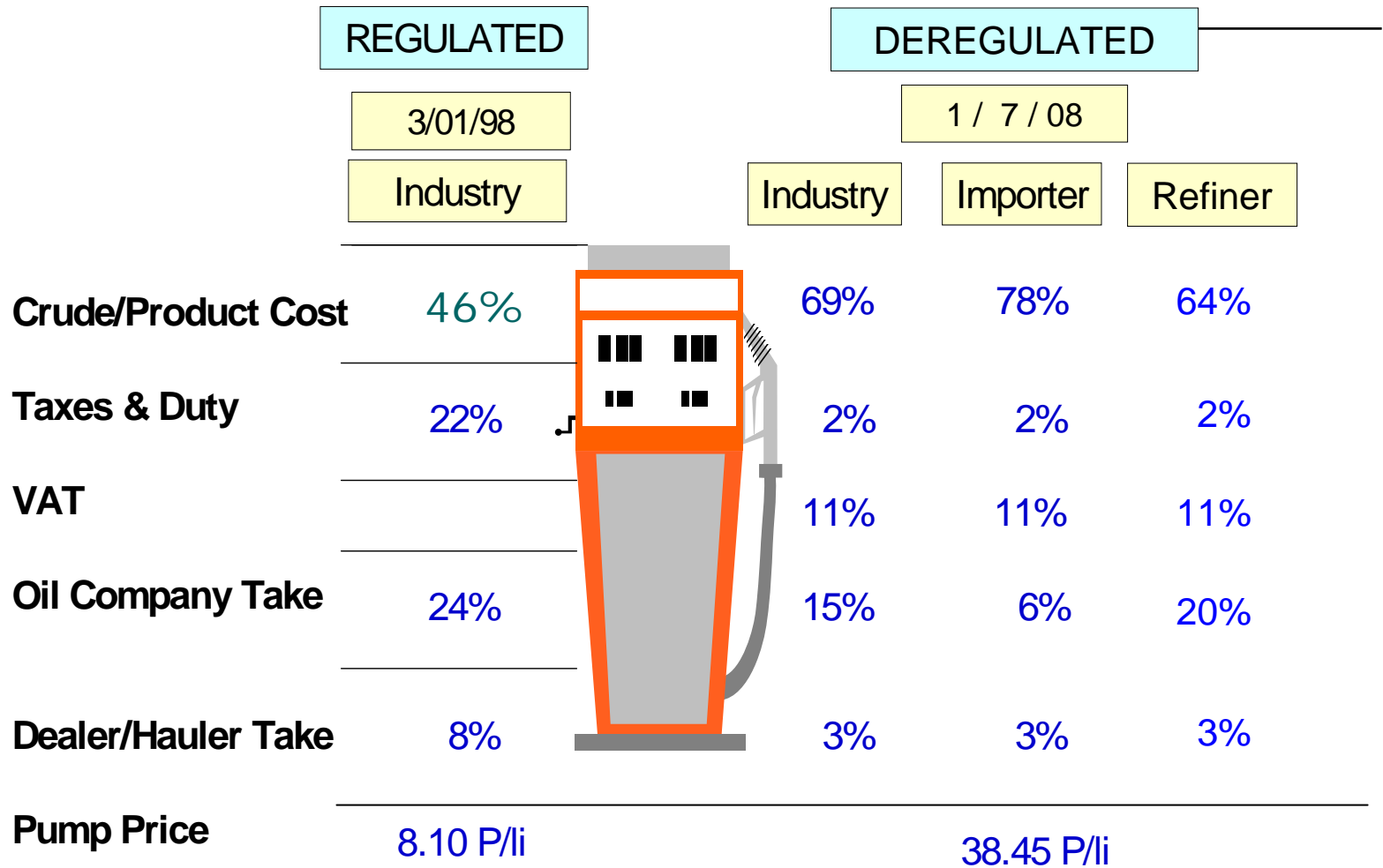


Crude based on December 2007 Dubai
 Product based on MTD January 2008 MOPS

Import dependence: 42%



WHAT DO WE PAY FOR IN A LITER OF DIESEL?

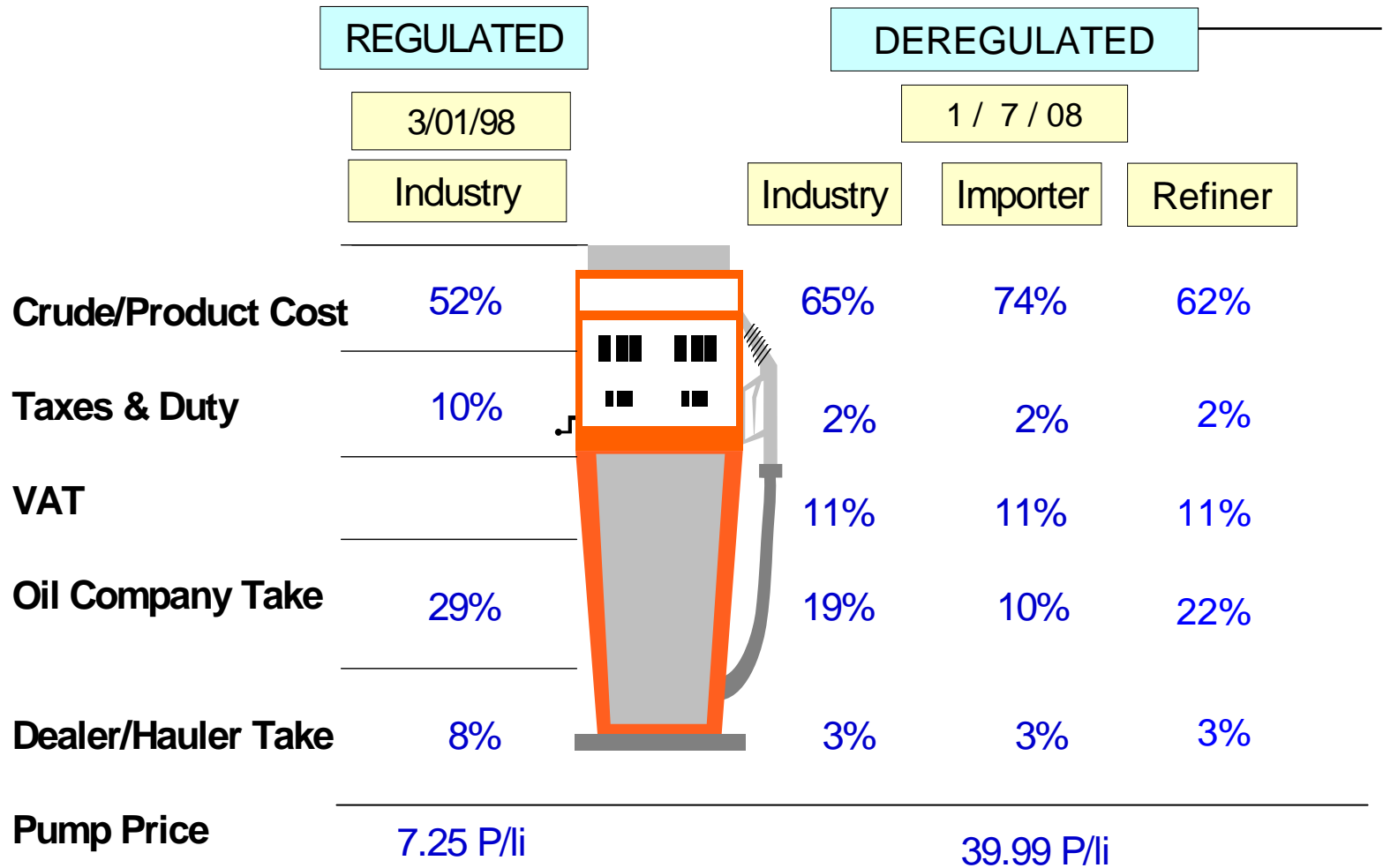


Crude based on December 2007 Dubai
 Product based on MTD January 2008 MOPS

Import dependence: 41%



WHAT DO WE PAY FOR IN A LITER OF KEROSENE?

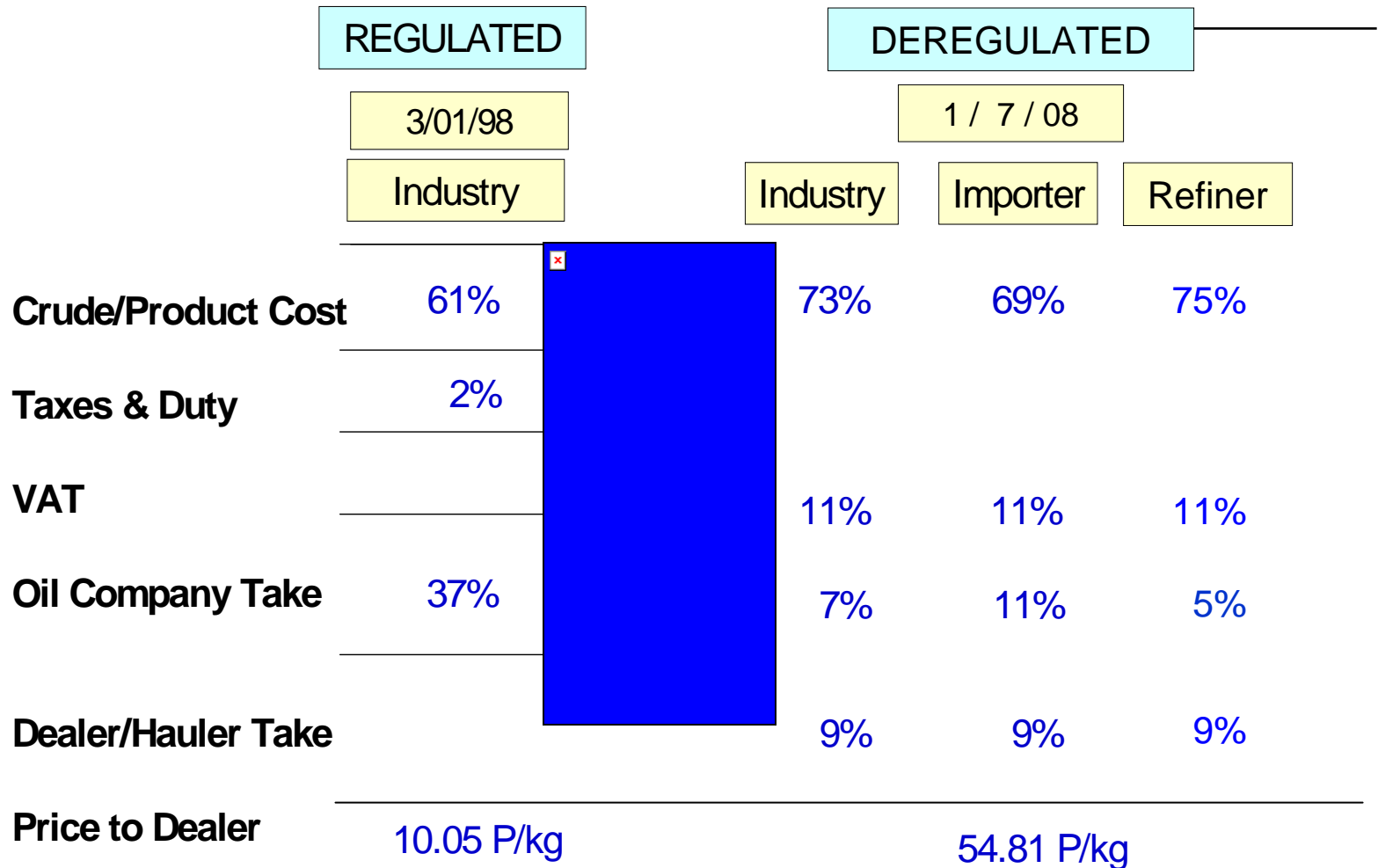


Crude based on December 2007 Dubai
 Product based on MTD January 2008 MOPS

Import dependence: 35%



WHAT DO WE PAY FOR IN A KILOGRAM OF LPG?



Crude based on December 2007 Dubai
 Product based on MTD January 2008 MOPS

Import dependence: 66%

Petron Profitability

| Year | NIAT* (mn PhP) | ROE(%) | NIAT (net of exports) | ROE(%) |
|------|-------------------|--------|--------------------------|--------|
| 2002 | 1,698 | 6.03 | 1,106 | 4.03 |
| 2003 | 1,851 | 6.59 | 982 | 3.69 |
| 2004 | 2,345 | 8.21 | 881 | 3.40 |
| 2005 | 2,067 | 3.18 | 132 | 0.22 |
| 2006 | 1,455 | 2.24 | 1,026 | 1.73 |
| 2007 | 1,587 | 2.44 | 237 | 0.40 |

*Net Income After Tax (adjusted for appraisal depn)

Shell Profitability

| Year | NIAT* | ROE(%) |
|------|-------|--------|
| 2002 | 1,544 | 6.06 |
| 2003 | 1,450 | 5.82 |
| 2004 | 1,771 | 5.01 |
| 2005 | 3,336 | 9.66 |
| 2006 | 1,908 | 5.81 |
| 2007 | 3,809 | 12.21 |

*Net Income After Tax (adjusted for appraisal depn)

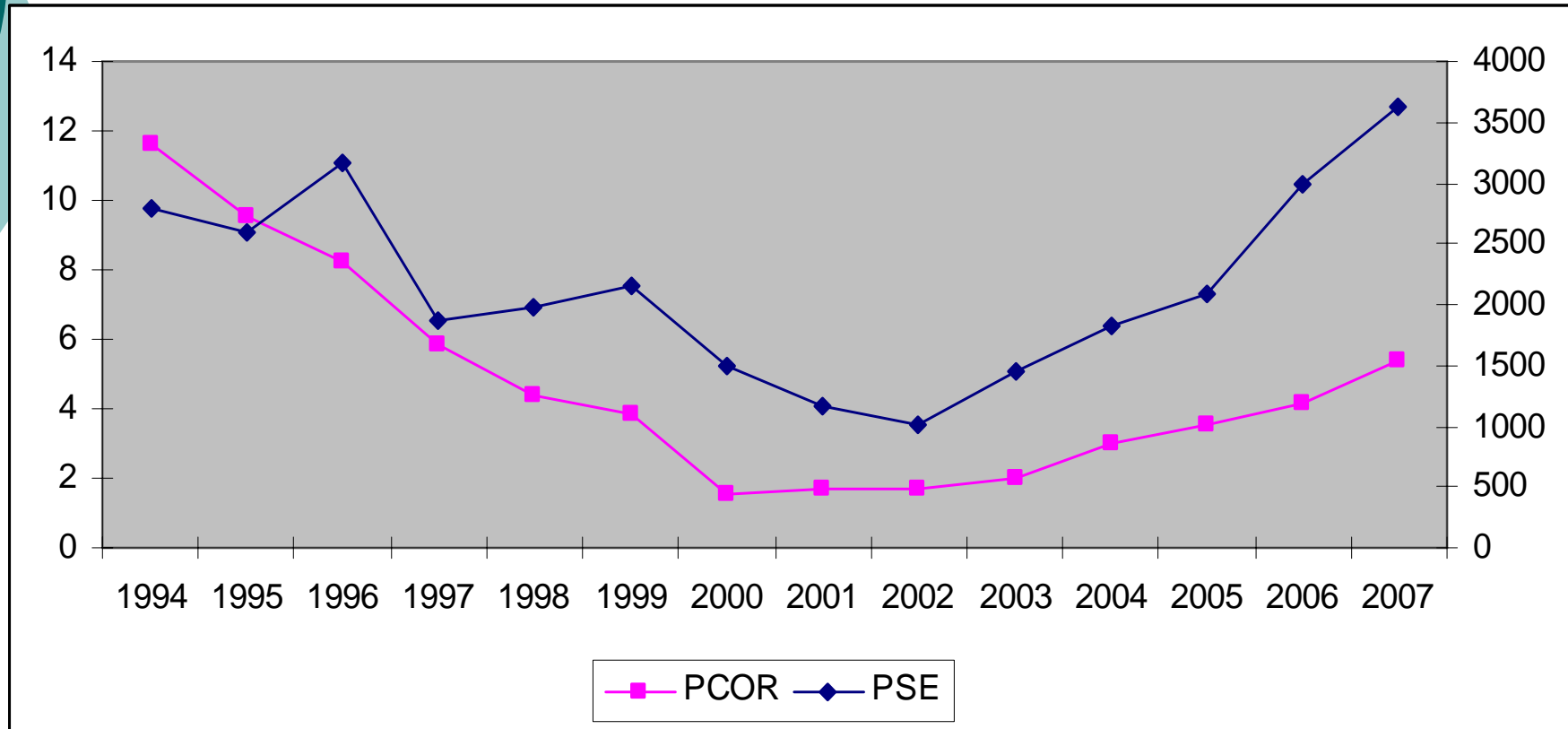
In contrast, interest rates were

| Year | Treasury Bill Rate (all maturities) | Treasury Bond Rates (20 yr) | Lending Rates (High – Low) |
|------|--|--------------------------------|-------------------------------|
| 2000 | 10.90 | - | 15.57 – 12.87 |
| 2001 | 11.05 | - | 15.31 – 13.67 |
| 2002 | 6.04 | 13.88 | 10.43 – 8.69 |
| 2003 | 6.65 | 12.23 | 10.75 – 8.92 |
| 2004 | 8.13 | 13.00 | 12.08 – 10.07 |
| 2005 | 7.53 | 12.13 | 11.06 – 9.05 |
| 2006 | 6.20 | 9.69 | 10.15 – 8.30 |
| 2007 | 4.21 | - | 8.59 – 6.85 |

RP Treasury Bond Rates

| Year | 5 Year | 10 Year | 20 Year |
|------|--------|---------|---------|
| 2000 | 13.76 | 14.68 | n.a. |
| 2001 | 14.53 | 17.00 | n.a. |
| 2002 | 12.11 | 12.56 | 13.88 |
| 2003 | 8.15 | 11.81 | 12.23 |
| 2004 | 11.64 | 12.31 | 13.00 |
| 2005 | 10.95 | 11.69 | 12.13 |
| 2006 | 8.72 | 8.06 | 9.69 |

Petron stock market performance



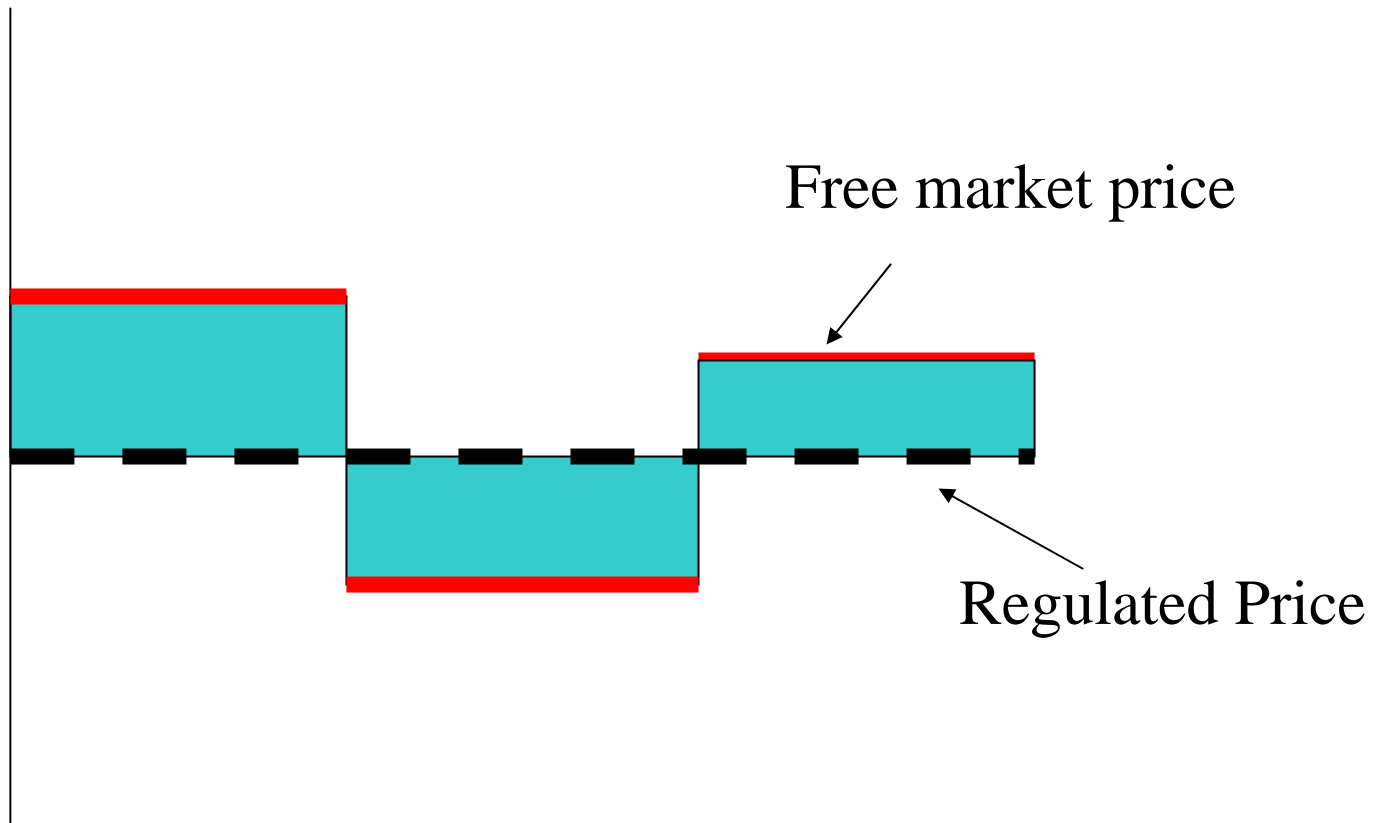
IRR of Petron stock approx. 4%



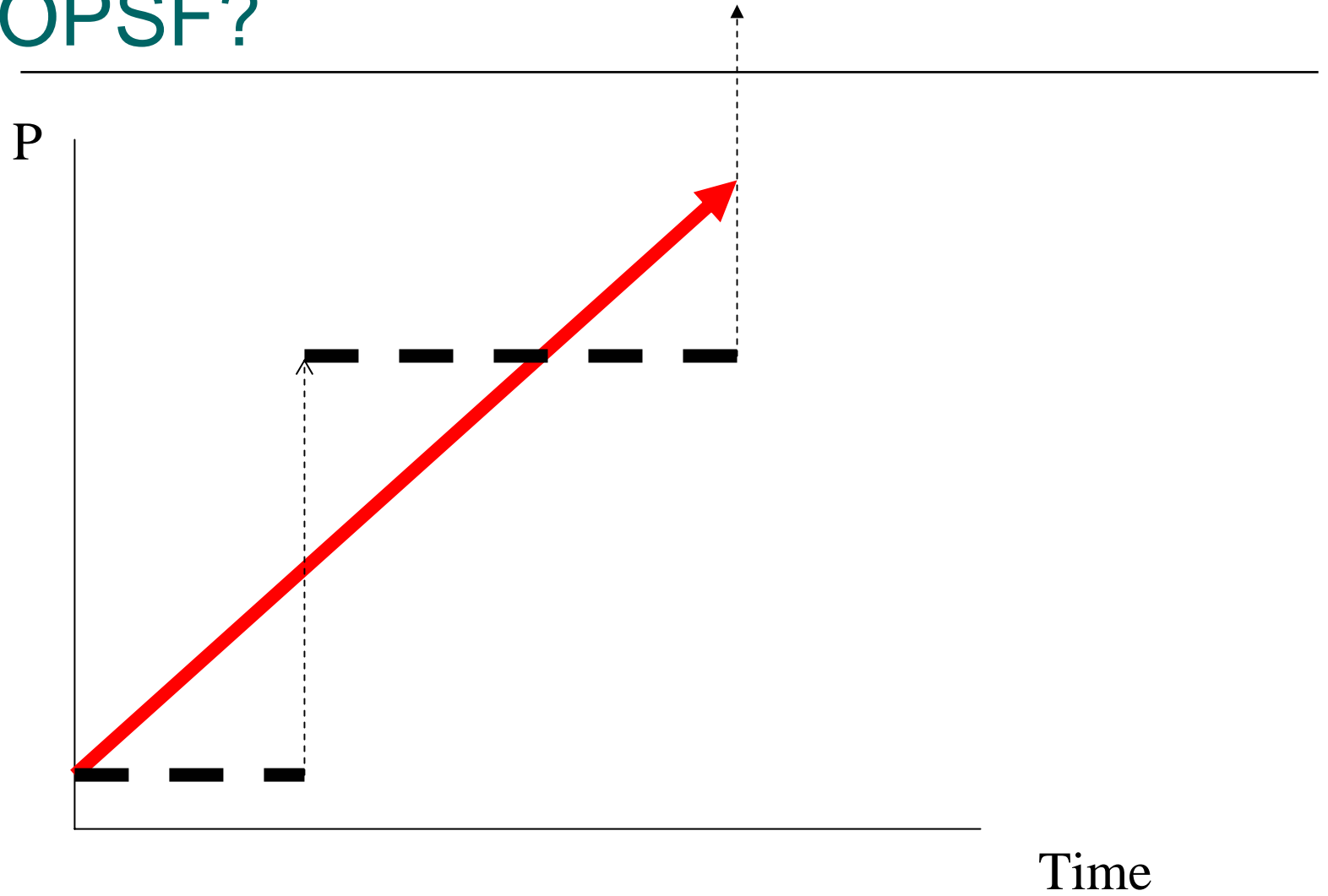
Final Thoughts

- Abrogate oil deregulation?
 - Source of high oil prices is external
- Resurrect OPSF?

OPSF?



OPSF?



Final Thoughts

- Implement Oil Deregulation Law provision for oil companies to list on stock market
 - Improve public impression of transparency. Listed firms need to report financials
 - Public also becomes stockholders. Can share in the profits/losses.
- Ultimately, country needs a credible competition policy with an enforcement agency.