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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended 30 September 2019
2. Commission identification number CS201619734
3. BIR Tax Identification No 009-393-167-000
4. Exact name of issuer as specified in its charter CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP.
5. Province, country or other jurisdiction of incorporation or organization Davao City, Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code  
Stella Hizon Reyes Road, Bo. Pampanga, Davao City, Philippines 8000
8. Issuer's telephone number, including area code +63 82 224 5373
9. Former name, former address and former fiscal year, if changed since last report  
Formerly CHELSEA LOGISTICS HOLDINGS CORP.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each class

Number of shares outstanding

COMMON

1,821,977,615

Amount of debt outstanding: PHP15,984,465,165

11. Are any or all of the securities listed on a Stock Exchange?

Yes ☒ No ☐

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE

COMMON SHARES

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes ☒ No ☐

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒ No ☐

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CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES  
(Formerly Chelsea Logistics Holdings Corp.)  
(A Subsidiary of Udenna Corporation)  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2019 AND DECEMBER 31, 2018  
(Amounts in Philippine Pesos)

	Notes	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	P 545,927,158	P 443,495,969
Trade and other receivables - net	5	2,309,757,806	1,430,045,495
Financial assets at fair value through profit or loss	6	3,947,736	3,947,736
Inventories	7	490,887,929	525,904,778
Advances to related parties	19	831,094,995	3,127,555,209
Other current assets	8	955,861,261	963,520,687
Total Current Assets		5,137,476,885	6,494,469,874
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	9	20,278,429,947	17,303,897,157
Investments in associates and a joint venture	10	1,985,649,557	1,821,168,833
Goodwill	23	5,641,434,544	5,641,434,544
Post-employment benefit asset	16	12,300,710	12,300,710
Deferred tax assets - net	18	352,503,988	283,345,565
Other non-current assets - net	11	540,506,019	734,638,640
Total Non-current Assets		28,810,824,765	25,796,785,449
<b>TOTAL ASSETS</b>		P 33,948,301,650	P 32,291,255,323

	Notes	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	P 4,266,261,476	P 3,511,146,370
Interest-bearing loans	12	4,969,489,381	6,555,553,721
Advances from related parties	19	563,958,716	36,098,668
Income tax payable		<u>16,584,378</u>	<u>22,769,050</u>
Total Current Liabilities		<u>9,816,293,951</u>	<u>10,125,567,809</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans	12	11,014,975,784	9,064,308,132
Post-employment benefit obligation	16	35,162,375	35,162,375
Deferred tax liabilities - net	18	70,584,294	82,471,428
Other non-current liabilities		<u>41,029,244</u>	<u>58,792,374</u>
Total Non-current Liabilities		<u>11,161,751,697</u>	<u>9,240,734,309</u>
Total Liabilities		<u>20,978,045,648</u>	<u>19,366,302,118</u>
<b>EQUITY</b>			
Equity attributable to shareholders of the Company			
Capital stock	20	1,821,977,615	1,821,977,615
Additional paid-in capital	20	9,998,370,157	9,998,370,157
Revaluation reserves	20	1,434,449,116	1,497,869,655
Other reserves	20	( 1,058,033,280 )	( 1,058,033,280 )
Retained earnings		<u>593,492,394</u>	<u>484,769,058</u>
		<u>12,790,256,002</u>	<u>12,744,953,205</u>
Non-controlling interest	20	<u>180,000,000</u>	<u>180,000,000</u>
Total Equity		<u>12,970,256,002</u>	<u>12,924,953,205</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 33,948,301,650</b>	<b>P 32,291,255,323</b>

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES  
(Formerly Chelsea Logistics Holdings Corp.)  
(A Subsidiary of Udenna Corporation)  
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS  
FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2019, 2018 AND 2017  
(Amounts in Philippine Pesos)  
(Unaudited)

Notes	For the nine months ended September 30,			For the three months ended September 30,		
	2019	2018	2017	2019	2018	2017
<b>REVENUES</b>						
Freight	P 1,691,665,824	P 1,259,532,693	P 646,434,580	P 659,829,758	P 404,203,818	P 211,213,389
Charter fees	1,583,424,750	1,210,506,861	1,087,683,761	367,966,690	244,171,499	381,876,014
Passage	1,094,607,624	726,677,148	339,528,146	361,847,404	181,831,279	86,812,180
Rendering of services	468,771,380	252,396,832	1,605,113	163,277,985	98,390,564	538,417
Tugboat fees	252,646,225	221,912,729	192,695,282	89,570,374	42,505,129	65,096,501
Sale of goods	63,085,836	23,700,360	28,163,983	17,182,805	7,509,099	13,749,399
	<u>5,154,201,639</u>	<u>3,694,726,623</u>	<u>2,296,110,865</u>	<u>1,659,675,016</u>	<u>978,611,388</u>	<u>759,285,900</u>
<b>COST OF SALES AND SERVICES</b>	14 <u>3,432,958,818</u>	<u>2,426,790,444</u>	<u>1,480,780,788</u>	<u>1,124,477,691</u>	<u>708,697,453</u>	<u>547,850,178</u>
<b>GROSS PROFIT</b>	<u>1,721,242,821</u>	<u>1,267,936,179</u>	<u>815,330,077</u>	<u>535,197,325</u>	<u>269,913,935</u>	<u>211,435,722</u>
<b>OTHER OPERATING EXPENSES</b>	15 <u>759,980,057</u>	<u>590,639,067</u>	<u>298,113,702</u>	<u>300,689,064</u>	<u>166,649,224</u>	<u>108,099,048</u>
<b>OPERATING PROFIT</b>	<u>961,262,764</u>	<u>677,297,112</u>	<u>517,216,375</u>	<u>234,508,261</u>	<u>103,264,711</u>	<u>103,336,674</u>
<b>OTHER INCOME (CHARGES) - Net</b>						
Finance costs	17 ( 855,711,081 )	( 526,531,828 )	( 552,940,846 )	( 338,739,920 )	( 178,365,952 )	( 330,350,115 )
Share in net income (loss) of an associate	10 ( 384,895,016 )	( 197,768,855 )	62,386,769	( 325,003,572 )	( 253,747,266 )	-
Finance income	17 619,702	1,361,433	106,131,731	( 2,669,979 )	( 10,111,198 )	97,197,120
Other income	17 <u>205,456,901</u>	<u>129,406,607</u>	<u>67,947,983</u>	<u>78,527,008</u>	<u>63,499,950</u>	<u>20,657,421</u>
	<u>( 1,034,529,494 )</u>	<u>( 593,532,643 )</u>	<u>( 316,474,363 )</u>	<u>( 587,886,463 )</u>	<u>( 378,724,466 )</u>	<u>( 212,495,574 )</u>
<b>PROFIT (LOSS) BEFORE TAX</b>	<u>( 73,266,730 )</u>	<u>83,764,469</u>	<u>200,742,012</u>	<u>( 353,378,202 )</u>	<u>( 275,459,755 )</u>	<u>( 109,158,900 )</u>
<b>TAX EXPENSE (INCOME)</b>	18 <u>( 93,217,389 )</u>	<u>40,751,211</u>	<u>48,910,689</u>	<u>( 64,965,818 )</u>	<u>35,315,598</u>	<u>16,608,231</u>
<b>NET PROFIT (LOSS)</b>	<u>P 19,950,659</u>	<u>P 43,013,258</u>	<u>P 151,831,323</u>	<u>( P 288,412,384 )</u>	<u>( P 310,775,353 )</u>	<u>( P 125,767,131 )</u>
<b>Earnings (Loss) Per Share (Basic and Diluted)</b>	21 <u>P 0.011</u>	<u>P 0.024</u>	<u>P 0.134</u>	<u>( P 0.158 )</u>	<u>( P 0.171 )</u>	<u>( P 0.111 )</u>

	Notes	For the nine months ended September 30,			For the three months ended September 30,		
		2019	2018	2017	2019	2018	2017
<b>NET PROFIT (LOSS)</b>		<b>P 19,950,659</b>	<b>P 43,013,258</b>	<b>P 151,831,323</b>	<b>( P 288,412,384 )</b>	<b>( P 310,775,353 )</b>	<b>( P 125,767,131 )</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>							
Items that will not be reclassified subsequently to profit or loss:							
Revaluation of vessels	9	98,313,475	75,665,117	49,040,962	176,743,118	( 10,153,046 )	( 1,247,994 )
Tax income	19	( 59,847,631 )	( 22,699,535 )	( 14,133,070 )	( 59,847,631 )	3,045,914	374,398
Currency exchange differences on translating financial statements of foreign operations	2	( 715,045 )	-	( 81,660 )	( 745,406 )	-	-
Remeasurement of post-employment benefit obligation	17	-	-	( 1,930,731 )	-	-	-
<b>Other Comprehensive Income - net of tax</b>		<b>37,750,799</b>	<b>52,965,582</b>	<b>32,895,501</b>	<b>116,150,081</b>	<b>( 7,107,132 )</b>	<b>( 873,596 )</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>P 57,701,458</b>	<b>P 95,978,840</b>	<b>P 184,726,824</b>	<b>( P 172,262,303 )</b>	<b>( P 317,882,485 )</b>	<b>( P 126,640,727 )</b>

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES  
(Formerly Chelsea Logistics Holdings Corp.)  
(A Subsidiary of Udenna Corporation)  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019, 2018 AND 2017  
(Amounts in Philippine Pesos)  
(Unaudited)

Notes	Attributable to Owners of the Parent Company						Non-controlling Interest	Total Equity
	Capital Stock	Additional paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total		
Balance at January 1, 2019							P	
As previously stated	P 1,821,977,615	P 9,998,370,157	P 1,497,869,655	( P 1,058,033,280 )	P 484,769,058	P 12,744,953,205	180,000,000	P 12,924,953,205
Restatement	-	-	-	-	( 12,398,660 )	( 12,398,660 )	-	( 12,398,660 )
As restated	<u>1,821,977,615</u>	<u>9,998,370,157</u>	<u>1,497,869,655</u>	<u>( 1,058,033,280 )</u>	<u>472,370,398</u>	<u>12,732,554,545</u>	<u>180,000,000</u>	<u>12,912,554,545</u>
Total comprehensive income for the period	-	-	37,750,799	-	19,950,659	57,701,458	-	57,701,458
Transfer of revaluation reserves through depreciation, net of tax	20 -	-	( 101,171,338 )	-	101,171,338	-	-	-
Balance at September 30, 2019	20 <u>P 1,821,977,615</u>	<u>P 9,998,370,157</u>	<u>P 1,434,449,116</u>	<u>( P 1,058,033,280 )</u>	<u>P 593,492,394</u>	<u>P 12,790,256,003</u>	<u>P 180,000,000</u>	<u>P 12,970,256,003</u>
Balance at January 1, 2018	P 1,821,977,615	P 9,998,370,157	P 1,429,917,004	( P 1,058,033,280 )	P 965,156,916	P 13,157,388,412	P -	P 13,157,388,412
Total comprehensive income for the period	-	-	52,965,582	-	43,013,258	95,978,840	-	95,978,840
Transfer of revaluation reserves through depreciation, net of tax	-	-	( 21,493,622 )	-	21,493,622	-	-	-
Balance at September 30, 2018	20 <u>P 1,821,977,615</u>	<u>P 9,998,370,157</u>	<u>P 1,461,388,964</u>	<u>( P 1,058,033,280 )</u>	<u>P 1,029,663,796</u>	<u>P 13,253,367,252</u>	<u>P -</u>	<u>P 13,253,367,252</u>
Balance at January 1, 2017	P 500,000,000	P -	P 1,370,998,267	( P 1,058,033,280 )	P 747,704,000	P 1,560,668,987	P -	P 1,560,668,987
Issuance of shares during the period	20 775,384,615	5,272,615,385	-	-	-	6,048,000,000	-	6,048,000,000
Total comprehensive income for the period	-	-	32,895,501	-	151,831,323	184,726,824	-	184,726,824
Transfer of revaluation reserves through depreciation, net of tax	-	-	( 6,780,434 )	-	6,780,434	-	-	-
Balance at September 30, 2017	<u>P 1,275,384,615</u>	<u>P 5,272,615,385</u>	<u>P 1,397,113,334</u>	<u>( P 1,058,033,280 )</u>	<u>P 906,315,757</u>	<u>P 7,793,395,811</u>	<u>P -</u>	<u>P 7,793,395,811</u>

See Notes to Interim Consolidated Financial Statements.



**CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Holdings Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*  
*(Unaudited)*

	Notes	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (Loss) before tax		( P 73,266,730 )	P 83,764,469	P 200,742,012
Adjustments for:				
Depreciation and amortization	9	914,511,658	623,718,524	402,173,066
Interest expense	17	850,935,575	455,512,746	402,566,577
Share in net loss (income) of an associate	10	384,895,016	197,768,855	( 62,386,769 )
Interest income	17	( 1,553,241 )	( 1,361,432 )	( 1,716,620 )
Unrealized foreign currency exchange losses - net	17	3,023,669	61,846,526	43,777,769
Operating profit before working capital changes		2,078,545,947	1,421,249,688	985,156,035
Increase in trade and other receivables		( 879,712,311 )	( 180,955,067 )	( 143,853,102 )
Decrease (increase) in inventories		35,016,849	( 173,454,989 )	( 73,974,191 )
Decrease (increase) in advances to related parties		2,296,460,214	( 44,376,951 )	( 6,095,621,836 )
Increase in other current assets		( 35,218,906 )	( 1,010,832,697 )	( 995,086,826 )
Decrease in post-employment benefit asset		-	42,223	2,919,518
Increase in other non-current assets		( 319,962,378 )	( 129,085,532 )	( 2,195,544 )
Increase in trade and other payables		697,701,335	1,160,172,822	136,197,966
Increase (decrease) in other non-current liabilities		( 17,763,130 )	5,395,344	( 10,629,299 )
Cash generated from (used in) operations		3,855,067,620	1,048,154,841	( 6,197,087,279 )
Interest received		1,553,241	1,361,432	1,716,620
Cash paid for income taxes		( 24,095,844 )	( 61,436,907 )	( 76,088,104 )
Net Cash From (Used in) Operating Activities		3,832,525,017	988,079,366	( 6,271,458,763 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property and equipment	9	( 2,140,539,760 )	( 4,589,786,535 )	( 779,848,875 )
Acquisitions of subsidiaries and additions to interest in a joint venture	10, 23	( 549,375,740 )	-	( 5,000,000 )
Proceeds from disposal of property and equipment	9	17,126,254	100,416,137	1,001,114
Net Cash Used in Investing Activities		( 2,672,789,246 )	( 4,489,370,398 )	( 783,847,761 )
Balance carried forward		P 1,159,735,771	( P 3,501,291,032 )	( P 7,055,306,524 )

	Notes	2019	2018	2017
<i>Balance brought forward</i>		<b>P 1,159,735,771</b>	( P 3,501,291,032 )	( P 7,055,306,524 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayments of interest-bearing loans	12	( 3,116,641,713 )	( 957,754,773 )	( 2,153,383,988 )
Proceeds from interest-bearing loans	12	2,325,426,103	5,105,776,938	7,924,139,192
Interest paid	17	( 793,521,805 )	( 442,494,425 )	( 320,911,526 )
Proceeds from advances from related parties	19	563,063,877	30,578,837	565,508,050
Repayments of advances from related parties	19	( 35,203,829 )	( 920,997,626 )	( 533,000,000 )
Proceeds from issuance of shares of stock		-	-	5,277,788,810
Collection of subscription receivable	20	-	-	350,000,000
Net Cash From Financing Activities		( 1,056,877,367 )	2,815,108,951	11,110,140,538
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		( 427,215 )	( 35,875,248 )	8,098,991
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>102,431,189</b>	( 722,057,329 )	4,062,933,005
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>443,495,969</b>	1,441,704,190	508,940,431
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>P 545,927,158</b>	P 719,646,861	P 4,571,873,436

**Supplemental Information for Non-cash Investing and Financing Activities:**

In 2019 and 2018, the Group acquired certain transportation equipment through obtaining mortgage loans from a local bank totaling P2.7 million and P1.4 million, respectively (see Notes 9 and 12).

In 2019, the Group acquired certain machinery and equipment amounting to P773.5 million through a sale and leaseback agreement with a local bank (see Note 12).

*See Notes to Interim Consolidated Financial Statements.*

**CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES**  
**(Formerly Chelsea Logistics Holdings Corp.)**  
**(A Subsidiary of Udenna Corporation)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND DECEMBER 31, 2018**  
**(Amounts in Philippine Pesos)**

**1. CORPORATE INFORMATION**

**1.1 Information and Operations**

Chelsea Logistics and Infrastructure Holdings Corp. (CLC or the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to subscribe for, invest and re-invest in, purchase, or otherwise acquire, own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, deal in and hold investment or otherwise, any and all properties of every kind and description and wherever situated, including but not limited to shares of stocks, bonds, debentures, notes, evidences of indebtedness, promissory notes, or other securities or obligations, created, negotiated or issued by any corporation, association, or other entity, including, but not limited to, securities in corporations engaged in shipping and logistics.

On November 28, 2016 and May 12, 2017, the Company's Board of Directors (BOD) and stockholders approved the change in the corporate name of the Company from Chelsea Shipping Group Corp. to Chelsea Logistics Corp. and from Chelsea Logistics Corp. to Chelsea Logistics Holdings Corp., respectively, and for this purpose, amended the Company's Articles of Incorporation and By-laws, which were approved by the SEC on December 21, 2016 and June 27, 2017, respectively.

On August 8, 2017, the shares of stock of the Company were listed at the Philippine Stock Exchange (PSE).

On November 12, 2018, the Company's BOD approved the change in the corporate name of the Company from Chelsea Logistics Holdings Corp. to Chelsea Logistics and Infrastructure Holdings Corp. SEC approved the application on May 7, 2019 after the ratification by the Company's stockholders on March 15, 2019.

The Company is 70% owned by Udenna Corporation (Udenna), a company primarily organized 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.

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

## 1.2 Subsidiaries, Associate and their Operations

As of September 30, 2019 and December 31, 2018, the Company holds ownership interests in the following subsidiaries and associate:

Subsidiaries	Explanatory Notes	Percentage of ownership	
		2019	2018
<b>Direct interest:</b>			
Chelsea Shipping Corporation (CSC)	(a)	100%	100%
Trans-Asia Shipping Lines, Incorporated (Trans-Asia)	(b)	100%	100%
Udenna Investments B. V. (UIBV)	(c)	100%	100%
Starlite Ferries, Inc. (Starlite)	(d)	100%	100%
Worklink Services, Inc. (WSI)	(e)	100%	100%
Tasli Services Incorporated	(y)	100%	-
<b>Indirect interest:</b>			
Bunkers Manila, Inc. (BMI) <sup>1</sup>	(f)	100%	100%
Michael, Inc. (MI) <sup>1</sup>	(g)	100%	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea) <sup>1</sup>	(h)	100%	100%
Chelsea Ship Management & Marine Services Corp. (CSMMSC) <sup>1</sup>	(i)	100%	100%
Fortis Tugs Corporation (FTC) <sup>1</sup>	(j)	100%	100%
Davao Gulf Marine Services, Inc. (DGMSI) <sup>2</sup>	(k)	100%	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI) <sup>1</sup>	(l)	100%	100%
Chelsea Dockyard Corporation (CDC) <sup>1</sup>	(m)	100%	100%
CD Ship Management & Marine Services Corp. (CDSMMSC) <sup>1</sup>	(n)	100%	100%
Chelsea Shipping and Logistics Singapore Pte. Ltd. (CSLSP) <sup>1</sup>	(u)	100%	100%
Quality Metals & Shipworks, Inc. (QMSI) <sup>3</sup>	(o)	100%	100%
Oceanstar Shipping, Inc. (Oceanstar) <sup>3</sup>	(p)	100%	100%
Dynamic Cuisine, Inc. (DCI) <sup>3</sup>	(q)	100%	100%
Starsy Shoppe, Inc. (SSI) <sup>3</sup>	(r)	100%	100%
Star Maritima Port and Allied Services (Star Maritima) <sup>3</sup>	(t)	100%	100%
Starbites Food Services Corp. (Starbites) <sup>4</sup>	(s)	100%	100%
Starlite Gallant Ferries, Inc. (SGFI) <sup>4</sup>	(d)	100%	100%
Starlite Premiere Ferries, Inc. (SPFI) <sup>4</sup>	(d)	100%	100%
Big Hub Transport and Logistics Corp. (Big Hub) <sup>3</sup>	(x)	100%	100%

**Associates:**

KGLI-NM Holdings, Inc. (KGLI-NM)			
Preferred C shares	(v)	80%	80%
Dito Telecommunity Corporation (Dito)	(w)	25%	-

<sup>1</sup>Wholly owned subsidiary of CSC

<sup>2</sup>Wholly owned subsidiary of FTC

<sup>3</sup>Wholly owned subsidiary of Trans-Asia

<sup>4</sup>Wholly owned subsidiary of Starlite

Except for UIBV and CSLSP, all the subsidiaries and associate were organized and incorporated in the Philippines.

- (a) Incorporated on July 17, 2006 and is engaged in the business of maritime trade in the conveyance or carriage of petroleum products, goods, wares and merchandise of every kind, over domestic and international oceans, seas, lakes, rivers, canals, harbours, and other waterways in the Philippines.
- (b) Incorporated on March 25, 1974 and is engaged in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas.
- (c) Incorporated on August 25, 1994 under the laws of the Netherlands, having its corporate seat in Amsterdam, and is incorporated to participate in, to administer, to finance, to conduct the management of and to render advice and services to other companies and enterprises. UIBV is formerly known as KGL Investment B.V, a private company with limited liability.

UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 39.85% economic interest in 2GO Group, Inc. (2GO). Hence, CLC has a 28.18% indirect economic interest in 2GO.

- (d) Incorporated on August 25, 1994 and is primarily engaged in general business of domestic shipping, to own and operate vessels of any class, type of description for domestic trade, to charter in and out any such vessel.

On August 10, 2018 and October 22, 2018, Starlite acquired all of the outstanding shares of stock of SGFI and SPFI, respectively. Both companies are primarily engaged in the general business of domestic shipping; to own and operate vessel of any class, type or description for domestic trade; and, to charter in and out any vessel.

- (e) Incorporated on June 2, 1994 and is engaged in logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crafting, etc.
- (f) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.
- (g) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.

- (h) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.
- (i) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.
- (j) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines.
- (k) Incorporated on January 18, 2012 and is engaged in, operates, conducts, and provides tug and marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.

On December 15, 2016, FTC acquired 100% of the outstanding capital stock of DGMSI, a Davao-based tug service provider.

- (l) Incorporated on June 9, 2016 and is primarily engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.
- (m) Incorporated on January 8, 2018 and is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities. As of December 31, 2018, CDC has not yet started commercial operations.
- (n) Incorporated on March 14, 2018 and is engaged to carry on the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals and for such purpose, to act as principal in and hire the services of a local manning agent for the overseas employment for seamen, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation.
- (o) Incorporated on November 28, 2007 and is engaged in machining and mechanical works on ship machineries and industrial plants.
- (p) Incorporated on July 6, 2006 primarily to engage in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas and is presently engaged in the charter or lease of maritime vessels.
- (q) Incorporated on June 21, 2000 primarily to establish and maintain restaurant, coffee shops, refreshment parlors, cocktail lounges and cater goods, drinks, refreshments and other food commonly served in such establishments.
- (r) Incorporated on September 30, 2005 and is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

- (s) Incorporated on June 27, 2018 and is engaged to purchase all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation, for purposes of selling the same on retail or wholesale locally.
- (t) Incorporated on October 11, 2018 and is primarily engaged in arrastre services. As of December 31, 2018, Star Maritima has not yet started commercial operations.
- (u) Incorporated and domiciled in the Republic of Singapore and is primarily engaged in the business and management consultancy services. CSLSP has not yet started commercial operations as of December 31, 2018.
- (v) Organized under Philippines laws and registered with SEC on August 8, 2008 as an investment holding company.
- (w) Incorporated on September 25, 1997 and is primarily engaged to establish, maintain and operate commercial telephone and telecommunications systems and to engage and/or operate in the telecommunications business, and own, construct, maintain, operate, manage, install and establish commercial telecommunications multi-point domestic inter-island and international communications including coastal stations for ships-at-sea, aeronautical stations for aircraft in flight within and outside the territorial jurisdiction of Philippines, telephone, telephone exchange, video telephone system, facsimile, teleprinting, teletype, telephoto, voice/data telex, message service and other telecommunications services, experimental or amateur stations and/or terminals and associated equipment and facilities, tropospheric scatter systems, satellite service communications, microwave extensions, cable TV installation and operations, and other means now known to science, or which in the future may be developed for the reception and transmission of telecommunications services, and to conduct researches and inventions in connections therewith.

On June 27, 2019, CLC acquired 25% of the outstanding capital stock of Dito.

- (x) Incorporated on November 14, 2018 and is primarily engaged to act as cargo consolidator, to engage in the business of transporting by land natural persons and/or their baggages, cargo, goods merchandise or effects, and to own, lease or charter, offer for lease or charter or operate land vehicles such as, but not limited to buses, cars, jeeps or vans.
- (y) Incorporated on September 2, 2019 and is primarily engaged in shipping agency business and maritime operation and services.

CLC together with CSC, Trans-Asia, UIBV, Starlite, WSI and their respective subsidiaries are collectively referred herein as the Group.

### **1.3 Approval of Consolidated Financial Statements**

The interim consolidated financial statements of the Group as of and for the nine months ended September 30, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the nine months ended September 30, 2018 and 2017) were authorized for issue by the Company's BOD on August 8, 2019.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

## **2.1 Basis of Preparation of Consolidated Financial Statements**

### **(a) Statement of Compliance with Philippine Financial Reporting Standards**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

### **(b) Presentation of Consolidated Financial Statements**

These consolidated interim financial statements are presented in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. As allowed under PAS 34, the Group has opted to present a complete set of financial statements in conformity with PAS 1, *Presentation of Financial Statements*.

The significant accounting policies that have been used in the preparation of these consolidated interim financial statements are summarized below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### **(c) Functional and Presentation Currency**

These consolidated financial statements are presented in Philippine pesos, the functional and presentation currency of the Company, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Group's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

## **2.2 Adoption of New and Amended PFRS**

### **(a) Effective in 2019 that are Relevant to the Group**

The Group adopted for the first time the following new standards, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investments in Associates – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty Over Income Tax Treatments



Annual Improvements –  
(2014-2016 Cycle)

PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 (Amendments)	:	Business Combinations – Remeasurement of Previously Held Interests in a Joint Operation
PFRS 11 (Amendments)	:	Joint Operations – Remeasurement of Previously Held Interests in a Joint Operation

Discussed below are the relevant information about these new standards, interpretations and annual improvements.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). The standard is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured with the discount rate used in the remeasurement [also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)].

The application of the amendments did not have a material impact in the Group's consolidated financial statements as the Group's accounting policies are consistent with the provisions of the new amendments.

- (ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The adoption of the amendments did not result in a material impact in the Group's consolidated financial statements as the Group's investment in an associate and joint venture is accounted for using the equity method; hence, are excluded in the scope of PFRS 9.

- (iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. Management has assessed that the application of the amendments did not have a material impact on the Group's consolidated financial statements as the Group's policies are consistent with the provisions of the new amendments.
- (iv) PFRS 16, *Leases* (effective from January 1, 2019). This new standard on leases supercedes PAS 17, *Leases*, and three related interpretations. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method.

However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The adoption of this new Standard has resulted in the Group recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under PAS 17 immediately before the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting PFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

The incremental borrowing rate applied to lease liabilities recognized under PFRS 16 range from 7.32% to 7.50%.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of PFRS 16.

- (v) Philippine Interpretations, *IFRIC 23 – Uncertainty Over Income Tax Treatments* (effective January 1, 2019). The interpretation clarifies the application of recognition and measurement requirements of PAS 12 when there is uncertainty over income tax treatments. The Interpretation specifically clarify that an entity is required to use judgment to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together on the assumption that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. In making such judgment, an entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. Management does not anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods.
- (vi) Annual Improvements to PFRS. Annual Improvements to PFRS (2015-2017 Cycle) made minor amendments to a number of PFRS, which are effective for the annual periods beginning on or after January 1, 2019. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:
  - (a) PAS 12 (Amendments), *Income Taxes – Tax Consequence of Dividends*. The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
  - (b) PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.
  - (c) PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments to clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

(b) *Effective Subsequent to 2019 but not Adopted Early*

There are new PFRS, amendments and annual improvements that are effective for annual periods beginning after January 1, 2019. The Group has not applied the following new or amended standards in preparing these unaudited interim condensed consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's unaudited interim condensed consolidated financial statements.

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Definition of Material* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective January 1, 2020). The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.
- (ii) PFRS 3 (Amendments), *Business Combinations – Definition of A Business* (effective January 1, 2020). The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.
- (iii) PFRS 17, *Insurance Contracts* (effective January 1, 2021). The new standard is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and,
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts.
- (iv) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* have been adopted by the FRSC but the effective date was deferred indefinitely. Management will adopt the following relevant pronouncements in accordance with their transitional provisions.

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. Management does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

### **2.3 Basis of Consolidation**

The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1.2, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

The Company accounts for its investments in subsidiaries, associate and joint venture as follows:

#### **(a) Investments in Subsidiaries**

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (i) it has power over the investee; (ii) it is exposed, or has rights to, variable returns from its involvement with the entity; and, (iii) has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Company obtains control.

The Company reassesses whether or not it controls an entity if facts and circumstances indicates that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

Except for acquisitions involving entities under common ownership that are accounted for under the pooling-of-interest method, the acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss (see Note 2.13).

*(b) Investment in an Associate*

An associate is an entity over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the Group's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within Share in Net Loss of an Associate account in the consolidated statement of profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.19).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

(c) *Investment in a Joint Venture*

A joint venture pertains to a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture entity pertains to an entity whose economic activities are controlled jointly by the Group and by other venturers independent of the Group (joint venturers). Investment in joint venture is accounted for under the equity method of accounting. Under this method, on initial recognition the investment in joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share in the profit or loss of the investee after the date of the acquisition. The investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for a change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The investments in joint ventures are subject to impairment testing (see Note 2.19).

(d) *Transactions with Non-Controlling Interests (NCI)*

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

## **2.4 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee, its chief operating decision-maker. The Executive Committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 25, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

## 2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Disclosure*. All other non-derivative financial instruments are treated as debt instruments.

### (a) Classification and Measurement of Financial Assets in accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below.

#### (i) Financial Assets at FVTPL

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include equity securities which are held for trading purposes or designated as at FVTPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in as part of Finance Income in the consolidated financial statement of profit or loss.

Interest earned on these investments is included in the net fair value gains (losses) on these assets and is presented as part of Finance Income in the consolidated statement of profit or loss.

#### (ii) Financial Assets at Amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,



- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), Advances to Related Parties and Security deposits and Restricted cash presented as part of Other Current Assets and Other Non-Current Assets accounts, in the consolidated statement of financial position.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2018, the Group has not made such designation.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of profit or loss as part of Finance Income.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL and loans and receivables. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

A more detailed description of the four categories of financial assets relevant to the Group follows:

(i) *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category, under rare circumstances, if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), Advances to Related Parties and Security deposits and Restricted cash presented as part of Other Current Assets and Other Non-Current Assets accounts, in the consolidated statement of financial position.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the consolidated statement of profit or loss.

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) *Impairment of Financial Assets*

From January 1, 2018, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables, advances to related parties, and other financial assets at amortized costs. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators, forward-looking information, and other qualitative factors (including possible offsetting) to calculate the ECL using a provision matrix. The Group also assesses impairment of trade and other receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due. For advances to related parties which all are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date taking into consideration historical defaults of the related parties. Management considers if the related party has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date.

Prior to 2018, the impairment of trade and other receivables and other financial assets at amortized costs was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognized in a separate provision for impairment. Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.6 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisitions, such as purchase price and other taxes that are not subsequently recoverable from taxing authority is determined using the first-in, first-out method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The net realizable value of fuel and spare parts inventories is the current replacement cost.

## **2.7 Property and Equipment**

Vessels are measured at fair value less accumulated depreciation and accumulated impairment losses, if any. Land is measured at cost less any accumulated impairment losses. All other items of property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two years on the vessel which are capitalized (see Note 2.8).

Following initial recognition at cost, vessels are carried at revalued amounts, which are the fair values at the date of revaluations less subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amounts represent fair values determined based on appraisals performed by external professional appraiser every after drydocking, which is done once every two years. In addition, appraisal of vessels is conducted more frequently if market factors indicate a material change in fair value (see Note 28.4).

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the consolidated statement of financial position. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves is transferred to Retained Earnings for the related depreciation relating to the revaluation increment. Upon disposal of the revalued assets, amount included in Revaluation Reserves is transferred to Retained Earnings.

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

Vessels and vessel equipment (see Note 3.2)	2 to 35 years
Building	20 years
Office furniture, fixtures and equipment	2 to 10 years
Transportation equipment	2 to 5 years

Leasehold improvements are amortized over the estimated useful lives of the assets of five periods or the lease term, whichever is shorter.

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of these assets.

Construction-in-progress (CIP) represents vessels and properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.21) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted, if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

## **2.8 Drydocking Costs**

Drydocking costs, presented as part of Vessels and vessel equipment under the Property and Equipment account, are considered major repairs that preserve the life of the vessels. As an industry practice, costs associated with drydocking are capitalized as part of the vessel and amortized on a straight-line basis over two years or until the next drydocking occurs, whichever comes earlier (see Note 2.7). When significant drydocking expenditures occur prior to their expiry of this period, any remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking.

Amortization of drydocking costs starts only when the process has been completed and the related vessel is ready for use.

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.7).

## **2.9 Other Assets**

Other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

## **2.10 Financial Liabilities**

Financial liabilities, which include interest-bearing loans, trade and other payables [except output value-added tax (VAT) and other tax-related liabilities] and advances from related parties are recognized when the Group becomes a party to the contractual terms of the instrument.

Interest-bearing loans are raised for support of the investing activities and working capital requirements of the Group. Finance charges, including direct issue costs, are charged to profit or loss, except for capitalized borrowing costs, on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.21). All other interest-related charges incurred on a financial liability are recognized as an expense in the consolidated statement of profit or loss.

Trade and other payables and advances from related parties are initially recognized at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Obligations under finance lease, included as part of interest-bearing loans, are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, at the inception of the lease [see Notes 2.17(a) and 23.4].

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

## **2.11 Deposits for Future Stock Subscriptions**

Deposits for future stock subscription refer to the amount of money or property received by the Group with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize. The Group does not consider a deposit for stock subscription as an equity instrument unless all of the following elements are present:

- (i) There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
- (ii) The Group's BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and,
- (iii) An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposits for future stock subscription will be reclassified to equity accounts when the Group meets the foregoing criteria.

## **2.12 Offsetting Financial Instruments**

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

## **2.13 Business Combinations**

Business combination involving entities under common control are accounted for under the pooling of interest method. Under this method, the assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize new assets and liabilities.

All other business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill or gain on bargain purchase, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition costs, is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

#### **2.14 Advances from Customers**

Advances from customers are measured at the amount of cash received from the customers under bareboat (BB) agreements and are derecognized once the related revenue transactions are consummated.

#### **2.15 Provisions and Contingencies**

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

#### **2.16 Revenue and Expense Recognition**

Revenue comprises revenue from sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding VAT and discounts.

To determine whether to recognize revenue, the Group follows a five-step process:

1. identifying the contract with a customer;
2. identifying the performance obligation;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and,
5. recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five rating criteria must be present:

1. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;



2. each party's rights regarding the goods or services to be transferred or performed can be identified;
3. the payment terms for the goods or services to be transferred or performed can be identified;
4. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
5. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its vessels, is recognized based on the type of charter arrangement entered into, either under a CVC, time charter (TC) or BB arrangement [see Note 3.1(a)].

Revenues from TC and BB arise from the hiring of vessels for a specified period of time, with the distinction that in a BB, no administration or technical maintenance is included as part of the agreement. These arrangements qualify as lease; hence, revenue is recognized on a straight-line basis over the term of the contract [see Notes 2.17(a)].

On the other hand, revenues from CVC arise from the delivery of liquid cargoes to the customers' premises such as the customers' vessels, oil depots or terminals or fuel tanks, and is recognized over time.

- (b) *Passage* – Revenue, which pertains to the transport of passengers from one port to another within the Philippines, is recognized over time and is based on the published tariff rates per passenger and route of the vessel. The duration of routes generally ranges from two to twelve hours.

The Group incurs incremental commission fees paid to travel agencies for each passenger booked through such intermediary. These amounts are expensed as incurred.

- (c) *Freight* – Revenue from freight services pertains to the transport of cargoes (rolling, bulk or containerized) from one port to another, is recognized over time, and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.
- (d) *Tugboat fees* – Revenue, which consist of fees arising from assisting domestic and international vessels in docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services, is recognized over time. The duration of such services normally ranges between one to four hours. Fees are based on agreed hourly rates for the use of tugboats.

The Group incurs incremental commission fees paid to intermediaries in connection with the provision of tugboat services. These amounts are expensed as incurred.

- (e) *Logistics services* – Revenue from logistics services generally include performance of ship of ship management and crewing services and warehousing and distribution services. Warehousing revenues is generally based on a fixed rate per pallet position for ambient or fixed rate per hour for cold storage. On the other hand, distribution services are generally recognized at a point in time i.e., when cargoes are received by either the shipper or consignee for delivery transactions.
- (f) *Standby charges* – Revenue is recognized at a point in time i.e., upon failure of the charterer to utilize/dispatch the tanker vessels within the allotted lay-time initially agreed upon with the Group.
- (g) *Sale of goods* – Revenue, which primarily include sale of food and beverage items to the vessels' passengers, is recognized at a point in time i.e., when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

Revenues from CVC, passage, freight, tugboat fees, and logistic services are recognized over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

In 2017 and prior periods, the Group recognized revenues based on the provisions of PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Group.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.21).

## **2.17 Leases**

The Group accounts for its leases as follows:

- (a) *Accounting for Leases in Accordance with PFRS 16*

As described in Note 2.1, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

*(ii) Group as Lessee*

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. On the consolidated statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included under interest-bearing loans and borrowings.

*(ii) Group as Lessor*

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

*(b) Accounting for Leases in Accordance with PAS 17 – retain old disclosure.*

*(i) Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Finance lease obligations, net of finance charges, are presented as Obligations under finance lease under Interest-Bearing Loans account in the consolidated statement of financial position.

Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

*(ii) Group as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from short-term operating lease is recognized at the agreed rates over the lease term.

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

## **2.18 Functional Currency and Foreign Currency Transactions**

### **(a) Transactions and Balances**

The accounting records of the Group, except UIBV, are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. The accounting records of UIBV are maintained in United States (U.S.) dollar.

Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss as part of Finance Income or Finance Costs.

### **(b) Translation of Financial Statements of Foreign Subsidiary**

The operating results and financial position of UIBV are translated to Philippine pesos, the Company's functional and presentation currency, as presented below.

- (i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses for each profit or loss account are translated at average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

## **2.19 Impairment of Non-financial Assets**

Goodwill is tested for impairment at least annually. All other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Except for impairment losses on goodwill, an impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

## **2.20 Employee Benefits**

The Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

### *(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, periods of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability or asset recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated regularly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by using the reference rates published by Bloomberg through its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL rates provide evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance costs or Finance income account in the consolidated statement of profit and loss.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

*(b) Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*(c) Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

*(d) Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

*(e) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.21 Borrowing Costs**

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

## **2.22 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

## **2.23 Related Party Transactions and Relationships**

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded retirement plan.



In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## **2.24 Equity**

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Revaluation reserves comprise gains and losses arising from the revaluation of the Group's vessels, remeasurements of post-employment defined benefit plan and cumulative translation adjustments on financial statements of foreign subsidiaries.

Other reserves pertain to the difference between the Company's cost of investment and the net identifiable assets of the acquired entities in a business combination accounted for under the pooling-of-interest method.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of profit or loss.

## **2.25 Earnings Per Share**

Basic earnings per share is computed by dividing net profit attributable to the Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Company does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

## **2.26 Events After the End of the Reporting Period**

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

# **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

### **3.1 Critical Management Judgments in Applying Accounting Policies**

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

#### *(a) Determination of Timing of Satisfaction of Performance Obligations*

In determining the appropriate method to use in recognizing the Group's revenues from charter agreements and related services, management determines that revenue is recognized over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

On the other hand, revenues from sale of goods and stand-by charges shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer acknowledged delivery of goods.

#### *(b) Business Model Assessment*

The Group's classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

#### *(c) Assessment of Control or Significant Influence over an Investee Company*

Judgment is exercised in determining whether the Group already has significant influence or control over an entity. In assessing each interest over an entity, the Group considers the power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's return.

Management assessed that the Company only has a significant influence over KGLI-NM even though it holds an 80% economic interest in KGLI-NM as its voting rights equate only to 39.97% (see Notes 1.2 and 10). It has considered the ability of the Group to influence the operating and financial policies of the investee, representation on the board of directors of the investee and routine participation in management decisions in making its judgment.

(d) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management in 2018 to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

Management has assessed that the sale and leaseback arrangement with a non-bank financing institution in 2018 is accounted for as a finance lease. All other leases are accounted for as operating lease.

(e) *Capitalization of Borrowing Costs*

The Group determines whether the amount of borrowing costs qualify for capitalization as part of the cost of the qualifying asset, or should be expensed outright. The accounting treatment for the finance costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time to bring the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit.

(f) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.15 and relevant disclosures are presented in Note 22.

**3.2 Key Sources of Estimation Uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are presented as follows:

(a) *Impairment of Trade and Other Receivables, Advances to Related Parties and Security deposits*

The Company measures impairment of trade and other receivables and security deposits at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors (including possible offsetting of outstanding liability with the debtor), general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In relation to advances to related parties, PFRS 9 notes that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these advances to related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related party's highly liquid assets in order to repay the loan if demanded at the reporting date taking into consideration the historical defaults of the related party.

(b) *Determining Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Future realization of the carrying amounts of inventories as presented in Note 7 is affected by price changes and action from the competitors. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial reporting period.

(c) *Estimating Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the asset.

The carrying amounts of property and equipment are analyzed in Note 9. In 2018, management changed the estimated useful lives of brand new vessels from 30 to 35 years and container yards from five years to ten years. This change in accounting estimate was applied prospectively, beginning January 1, 2018, and resulted in the decrease in depreciation of certain vessels and container yards totaling P58.4 million during the year and in the succeeding periods.

(d) *Fair Value Measurement of Vessels*

The Group's vessels, included as part of Property and Equipment, are carried at revalued amounts at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraiser applying the relevant methodologies as discussed in Note 27.4.

For the Group's vessels with appraisal conducted prior to the end of the reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those assets.

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation recognized on the Group's vessels are disclosed in Note 9.

(e) *Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at September 30, 2019 and December 31, 2018, will be fully utilized in the coming periods. The carrying value of deferred tax assets as of September 30, 2019 and December 31, 2018 is disclosed in Note 18.2.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.19). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2019 and 2018.

(g) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 18.2.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Cash on hand and in banks	<b>P 531,102,369</b>	P 429,068,769
Short-term placements	<b><u>14,824,789</u></b>	<u>14,427,200</u>
	<b><u>P 545,927,158</u></b>	<u>P 443,495,969</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods from 30 to 90 days and earn effective interest ranging from 1.00% to 3.50% both in 2019 and 2018.

The balances of cash on hand and in banks as of September 30, 2019 and December 31, 2018 did not include an amount of P20.7 million and of P1.6 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts, respectively, in the consolidated statements of financial position (see Notes 8 and 11). Such amount is not available for the general use of the Group.

## 5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	September 30, 2019	December 31, 2018
Trade receivables	19.1, 19.3	P 2,164,555,910	P 1,288,836,808
Due from agencies		103,681,115	65,397,867
Advances to officers and employees		24,263,784	60,134,374
Claims receivables		8,920,658	16,332,854
Others		25,938,114	16,945,367
		2,327,359,581	1,447,647,270
Allowance for doubtful accounts		( 17,601,775 )	( 17,601,775 )
		<u>P 2,309,757,806</u>	<u>P 1,430,045,495</u>

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables were found to be impaired using the provisional matrix as determined by the management; hence, adequate amount of allowance for impairment has been provided (see Note 25.2).

Trade and other receivables are unsecured and do not bear any interest. All receivables, except for advances to officers and employees, are subject to credit risk exposure (see Note 25.2).

Due from agencies represent claims from authorized agencies for tickets issued to customers.

Claims receivables include charges made by the customers to the Group for claims on damages due to handling of goods and/or cargoes. These are reimbursable from the transacting agency.

Advances to officers and employees represent unsecured, noninterest-bearing cash advances for business-related expenditures and are subject to liquidation.

Certain trade receivables amounting to P331.1 million and P479.7 million as of September 30, 2019 and December 31, 2018, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans (see Note 12.1).

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account represents investments in equity securities that are listed in the PSE that have been designated by management as financial assets at FVTPL upon initial recognition. The fair values of equity securities have been determined directly by reference to quoted bid prices in active markets (see Note 27.2).

There were no significant changes in the fair value of financial assets at FVTPL for the periods ended September 30, 2019 and 2018.

## 7. INVENTORIES

This account includes the following:

	<u>Notes</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Spare parts		<b>P 289,861,326</b>	P 164,896,119
Fuel and lubricants	20.2	<b>169,563,979</b>	216,726,685
Shipping supplies		<b>21,773,293</b>	122,627,585
Food, beverage and other supplies		<b>9,689,331</b>	20,745,196
Electrical parts		<b>-</b>	<b>909,193</b>
		<b><u>P 490,887,929</u></b>	<b><u>P 525,904,778</u></b>

As of September 30, 2019 and December 31, 2018, based on management's assessment, the net realizable value of inventories is higher than its cost.

Spare parts include inventory items such as bearings, cylinders, fuel injectors and other items used for the repair or replacement of vessel that does not meet the definition of property and equipment in accordance with PAS 16.

## 8. OTHER CURRENT ASSETS

The breakdown of this account as of September 30, 2019 and December 31, 2018 follows:

	<u>Notes</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Input VAT		<b>P 453,350,966</b>	P 470,121,365
Prepayments		<b>230,489,611</b>	88,413,417
Creditable withholding taxes		<b>206,303,935</b>	175,798,416
Deferred input VAT		<b>56,267,433</b>	155,837,184
Restricted cash	4	<b>6,243,270</b>	-
Advances to suppliers		<b>3,206,046</b>	9,625,658
Security deposits	19.3, 22.3	<b>-</b>	11,462,687
Deferred charges		<b>-</b>	52,091,850
Others		<b>-</b>	<b>170,110</b>
		<b><u>P 955,861,261</u></b>	<b><u>P 963,520,687</u></b>

Prepayments primarily include prepaid taxes and licenses, rentals, and insurance.

## 9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment loss of property and equipment at the beginning and end of 2019 and 2018 are shown below.

	Land and Land Development	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	Right-of-use Assets	CIP	Total
September 30, 2019								
Cost or revalued amounts	P 1,407,450,946	P 21,168,754,471	P 166,291,646	P 217,904,017	P 177,937,446	P 315,488,792	P 1,531,614,478	P 24,985,441,796
Accumulated depreciation and amortization	-	( 4,469,280,804 )	( 83,036,534 )	( 45,418,448 )	( 103,508,104 )	( 5,767,959 )	-	( 4,707,011,849 )
Net carrying amount	<u>P 1,407,450,946</u>	<u>P 16,699,473,667</u>	<u>P 83,255,112</u>	<u>P 172,485,569</u>	<u>P 74,429,342</u>	<u>P 309,720,833</u>	<u>P 1,531,614,478</u>	<u>P 20,278,429,947</u>
December 31, 2018								
Cost or revalued amounts	P 1,383,120,059	P 17,474,604,261	P 159,722,803	P 101,709,707	P 168,388,806	P -	P 1,332,056,903	P 20,619,602,539
Accumulated depreciation and amortization	-	( 3,119,163,120 )	( 56,951,215 )	( 36,449,898 )	( 100,926,529 )	-	-	( 3,313,490,762 )
Accumulated impairment loss	-	( 2,214,620 )	-	-	-	-	-	( 2,214,620 )
Net carrying amount	<u>P 1,383,120,059</u>	<u>P 14,353,226,521</u>	<u>P 102,771,588</u>	<u>P 65,259,809</u>	<u>P 67,462,277</u>	<u>P -</u>	<u>P 1,332,056,903</u>	<u>P 17,303,897,157</u>
January 1, 2018								
Cost or revalued amounts	P 211,673,989	P 13,379,162,304	P 114,549,466	P 51,089,515	P 128,551,325	P -	P 588,837,757	P 14,473,864,356
Accumulated depreciation and amortization	-	( 3,004,776,365 )	( 46,095,605 )	( 30,714,077 )	( 86,958,008 )	-	-	( 3,168,544,055 )
Accumulated impairment loss	-	( 2,214,620 )	-	-	-	-	-	( 2,214,620 )
Net carrying amount	<u>P 211,673,989</u>	<u>P 10,372,171,319</u>	<u>P 68,453,861</u>	<u>P 20,375,438</u>	<u>P 41,593,317</u>	<u>P -</u>	<u>P 588,837,757</u>	<u>P 11,303,105,681</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2019 and 2018 is shown below.

	Land and Land Development	Vessels and Vessel Equipment	Transportation Equipment	Leasehold Improvements	Fixture and Equipment	Right of Use Assets	CIP	Total
Balance at January 1, 2019, net of accumulated depreciation and amortization and impairment losses	P 1,383,120,059	P 14,353,226,521	P 102,771,588	P 65,259,809	P 67,462,277	P -	P 1,332,056,903	P 17,303,897,157
Additions	24,330,887	1,949,871,442	2,716,350	115,259,148	34,839,056	315,488,792	851,256,554	3,293,762,229
Revaluation increment	-	98,313,475	-	-	-	-	-	98,313,475
Reclassification	-	1,165,542,640	-	-	-	-	( 651,698,979 )	P 513,843,661
Disposals - net	-	( 16,970,236 )	-	-	( 156,018 )	-	-	( 17,126,254 )
Depreciation and amortization charges for the year	-	( 850,510,175 )	( 22,232,826 )	( 8,033,388 )	( 27,715,973 )	( 5,767,959 )	-	( 914,260,321 )
Balance at September 30, 2019, net of accumulated depreciation and amortization and impairment losses	<u>P 1,407,450,946</u>	<u>P 16,699,473,667</u>	<u>P 83,255,112</u>	<u>P 172,485,569</u>	<u>P 74,429,342</u>	<u>P 309,720,833</u>	<u>P 1,531,614,478</u>	<u>P 20,278,429,947</u>
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment losses	P 211,673,989	P 10,372,171,319	P 68,453,861	P 20,375,438	P 41,593,317	P -	P 588,837,757	P 11,303,105,681
Balance from acquired subsidiaries at October 30, 2018, net of accumulated depreciation and amortization	-	450,283,483	1,016,992	-	642,426	-	542,325,953	994,268,854
Additions	1,171,446,070	3,324,476,313	55,611,885	42,531,110	46,791,835	-	1,265,736,331	5,906,593,544
Revaluation increment	-	167,829,312	-	-	-	-	-	167,829,312
Reclassification	-	1,056,486,156	-	8,356,982	-	-	( 1,064,843,138 )	-
Disposals - net	-	( 194,240,296 )	( 2,247,690 )	-	( 3,354,174 )	-	-	( 199,842,160 )
Depreciation and amortization charges for the year	-	( 823,779,766 )	( 20,063,460 )	( 6,003,721 )	( 18,211,127 )	-	-	( 868,058,074 )
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment losses	<u>P 1,383,120,059</u>	<u>P 14,353,226,521</u>	<u>P 102,771,588</u>	<u>P 65,259,809</u>	<u>P 67,462,277</u>	<u>P -</u>	<u>P 1,332,056,903</u>	<u>P 17,303,897,157</u>



The fair values of the Group's vessels were based on the latest appraisal reports as shown below.

Name of Vessel	Date of Report	Net Appraised Values
MT Jasaan	July 27, 2019	P 42,500,000
MT BMI Patricia	July 26, 2019	55,500,000
M/Tug Fortis VI	June 27, 2019	70,000,000
M/Tug Fortis VII	June 27, 2019	58,000,000
M/Tug Fortis VIII	June 27, 2019	74,000,000
M/Tug Fortis X	June 27, 2019	85,000,000
MV Starlite Annapolis	June 6, 2019	75,691,000
MT Chelsea Endurance	May 30, 2019	330,000,000
MT Chelsea Denise II	March 26, 2019	442,000,000
MV Trans-Asia 2	February 28, 2019	90,000,000
M/Tug Pindasan	February 1, 2019	35,787,000
M/Tug Samal	February 1, 2019	29,757,000
M/Tug Sigaboy	February 1, 2019	20,676,000
M/Tug Fortis I	December 14, 2018	82,000,000
M/Tug Fortis II	December 14, 2018	80,000,000
MV Trans-Asia 3	October 23, 2018	192,785,000
MV Trans-Asia 8	October 23, 2018	174,655,000
MV Trans-Asia 10	October 23, 2018	157,378,000
MT Chelsea Intrepid	September 20, 2018	120,000,000
MV Starlite Tamaraw	August 1, 2018	24,289,000
MV Starlite Archer	July 30, 2018	468,126,000
MV Starlite Saturn	July 28, 2018	451,146,000
MV Starlite Eagle	July 28, 2018	466,130,000
MV Starlite Jupiter	July 26, 2018	29,531,000
MV Starlite Navigator	July 26, 2018	29,903,000
MV Starlite Pacific	July 26, 2018	13,961,000
MV Starlite Polaris	July 26, 2018	9,287,000
MV Starlite Ferry	July 26, 2018	18,504,000
MV Starlite Pioneer	July 25, 2018	431,161,000
MT Ernesto Uno	May 29, 2018	152,000,000
MT Chelsea Resolute	January 10, 2018	255,000,000
MV Starlite Reliance	November 22, 2017	450,000,000
MT Denise	November 11, 2017	195,000,000
MT Excellence	June 14, 2017	150,000,000
MT Chelsea Charlize	June 27, 2016	470,000,000
MT Great Princess	May 31, 2016	1,450,000,000
MV Trans-Asia 5	May 17, 2016	114,000,000
MV Asia Philippines	May 17, 2016	71,000,000
MV Asia Pacific	April 27, 2016	71,000,000
MT Chelsea Enterprise	March 4, 2016	135,000,000
MT Great Diamond	August 5, 2015	1,021,886,700
MT Chelsea Cherylyn	December 29, 2014	880,000,000

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of their last appraisals.

In 2018, the Group acquired new vessels namely, MT Chelsea Providence, MV Trans-Asia 15, MV Trans-Asia 16, MV Trans-Asia 17, MV Trans-Asia 18 and MTug Fortis VIII, MTug Fortis IX, MTug Fortis X and MTug Fortis XI. No appraisal reports were obtained for these vessels as management believes that the acquisition costs approximate their fair values.

If the Group's vessels and vessel equipment were measured under the cost model, the cost, accumulated depreciation and net carrying amount as of September 30, 2019 and December 31, 2018 are as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Cost	<b>P18,164,079,597</b>	P 12,836,950,468
Accumulated depreciation	<b>( 3,498,910,811 )</b>	( 1,836,702,037 )
Net carrying amount	<b><u>P 14,665,168,786</u></b>	<b><u>P 11,000,248,431</u></b>

Depreciation and amortization is classified in the consolidated statements of profit and loss as follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cost of sales and services	14	<b>P 875,504,788</b>	P 600,420,763	P 388,310,080
Other operating expense		<b><u>38,755,533</u></b>	<u>23,297,761</u>	<u>13,862,986</u>
	15	<b><u>P 914,260,321</u></b>	<b><u>P 623,718,524</u></b>	<b><u>P 402,173,066</u></b>

Certain vessels of the Group with a total net carrying amount of P10,123.1 million and P12,059.6 million as of September 30, 2019 and December 31, 2018, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 12).

Capitalized borrowing costs amounted to P43.6 million and P71.7 million as of September 30, 2019 and 2018 and is recognized using a capitalization rate of 7.74% (see Note 9). No borrowing costs were capitalized in 2017.

As of September 30, 2019 and December 31, 2018, the carrying amounts of idle property and equipment due to breakdown in the vessel's main engine gearbox and the delay in the manufacturing and importation of the replacement gearbox amounted to P832.4 million and P1,305.8 million, respectively. Meanwhile, management has assessed that the cost of fully depreciated property and equipment that are still in use in operations is deemed insignificant.

# 10. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

The carrying value of the Group's investment in an associate and a joint venture as of the end of the reporting periods is as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Associates:		
KGLI-NM		
Cost	P 2,104,212,296	P 2,104,212,296
Accumulated equity share in the total other comprehensive income from previous year	( 346,960,795 )	106,087,393
Equity share in net loss	( 245,869,094 )	( 453,048,188 )
	<u>1,511,382,407</u>	<u>1,757,251,501</u>
Dito		
Cost	532,291,633	-
Equity share in net loss	( 139,025,921 )	-
	<u>393,265,712</u>	<u>-</u>
	<u>1,904,648,119</u>	<u>1,757,251,501</u>
Jointly controlled entity –		
Meridian Maritime		
Training Center (Meridian)	<u>81,001,438</u>	<u>63,917,332</u>
	<u>P 1,985,649,557</u>	<u>P 1,821,168,833</u>

On March 27, 2017, the Company acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to the Company 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna. UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 39.85% economic interest in 2GO. Hence, the Company has a 28.18% indirect economic interest in 2GO (see Note 21.1).

On May 10, 2019, the Company subscribed 40,833,333 common shares and 22,916,666 preferred shares or equivalent to 25% interest of Dito's authorized capital stock for a total amount of P4.1 billion. Out of the subscribed shares, P532.3 million worth of shares have been paid and is presented as part of Investment in Associates and a joint venture in the 2019 consolidated statement of financial position.

Presented below are the financial information of the Group's associates as of September 30, 2019 and December 31, 2018 (in thousands).

## September 30, 2019

	<u>KGLI-NM</u>	<u>Dito</u>	<u>Total</u>
Total Current assets	P 7,865,795	P 4,899,220	P 12,765,015
Total Non-current Assets	7,892,030	8,509,261	16,401,291
Total Current Liabilities	8,928,457	3,909,849	12,838,306
Total Non-current Liabilities	3,061,664	-	3,061,664
Total Revenues	17,338,699	-	17,338,699
Net Profit (Loss)	( 768,502 )	( 556,103,686 )	( 556,872,188 )

December 31, 2018

	<u>KGLI-NM</u>		<u>Dito</u>		<u>Total</u>	
Total Current assets	P	8,469,250	P	-	P	8,469,250
Total Non-current Assets		8,812,080		-		8,812,080
Total Current Liabilities		9,699,008		-		9,699,008
Total Non-current Liabilities		9,336,878		-		9,336,878
Total Revenues		21,060,201		-		21,060,201
Net Profit (Loss)	(	1,421,373 )	-		(	1,421,373 )

No dividends were received from KGLI-NM during the year 2019 and 2018.

KGLI-NM is a private company; therefore, no quoted market prices are available for its shares.

In 2016, CSC entered into a Memorandum of Agreement with Meridian whereby both parties agreed to establish and operate a training facility on a parcel of land at the Calaca Seaport (formerly Phoenix Petroterminals Industrial Park) in Calaca, Batangas. The training facility shall be called the Meridian Maritime Training Center. The establishment of the facility shall have a total project cost of P50.0 million, which will be financed by CSC and any profits will be distributed 70% to CSC and 30% to Meridian until such time that CSC achieves 100% return on investment, after which, profit sharing will be 50% both to CSC and Meridian.

In 2019 and 2018, CSC made additional investment in the Meridian amounting to P17.1 million and P5.3 million, respectively.

No share in profit or loss was recognized from the investment in joint venture as the facility is still under construction and expenses recognized are not significant as of September 30, 2019 and December 31, 2018.

The Group does not have any capital commitments nor does it have any restriction on the ability to access or use assets, and settle liabilities of the associate and the joint venture.

As of September 30, 2019 and December 31, 2018, management believes that the investments in an associate and a joint venture are not impaired.

# **11. OTHER NON-CURRENT ASSETS**

This account is composed of the following as of:

	<u>Notes</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Advances to suppliers		<b>P 329,474,410</b>	P 694,861,356
Security deposits	19.3, 22.3	<b>81,984,966</b>	29,066,341
Deferred charges		<b>68,795,559</b>	-
Intangible assets		<b>27,746,984</b>	-
Restricted cash	4	<b>14,500,000</b>	1,637,081
Other investments		<b>8,905,914</b>	8,773,862
Others		<b>9,098,186</b>	300,000
		<b><u>P 540,506,019</u></b>	<b><u>P 734,638,640</u></b>

Advances to suppliers include down payments made to suppliers for the acquisition of long-term assets which include vessels and parcels of land.

Security deposits include rental deposits and guarantee deposits for the Company's ongoing projects.

Intangible assets include computer software licenses and software development costs.

Other investments pertain to investments in insurance security fund.

## 12. INTEREST-BEARING LOANS

The short-term and long-term interest-bearing loans are broken down as follows:

	Notes	September 30, 2019	December 31, 2018
Current:			
Bank loans	12.2	P 3,811,676,951	P 4,894,210,434
Term loans	12.1	1,006,347,208	1,595,629,564
Mortgage loans	12.3	34,830,670	41,506,393
Lease liabilities	12.4	116,634,552	24,207,330
		<u>4,969,489,381</u>	<u>6,555,553,721</u>
Non-current:			
Term loans	12.1	9,805,074,771	8,889,862,811
Lease liabilities	12.4	1,010,222,965	35,673,912
Mortgage loans	12.3	199,678,048	138,771,409
		<u>11,014,975,784</u>	<u>9,064,308,132</u>
		<u>P15,984,465,165</u>	<u>P15,619,861,853</u>

A reconciliation of the carrying amounts of interest-bearing loans at the beginning and end of September 30, 2019 and December 31, 2018 is shown below.

	Term loans (see Note 12.1)	Bank loans (see Note 12.2)	Mortgage loans (see Note 12.3)	Lease Liabilities (see Note 12.4)	Total
Balance as of January 1, 2019	P 10,485,492,375	P 4,894,210,434	P 180,277,802	P 59,881,242	P 15,619,861,853
Cash flows from financing activities:					
Additions	895,357,202	1,430,068,901	-	-	2,325,426,103
Repayments	( 572,024,052 )	( 2,487,075,295 )	( 42,856,330 )	( 14,686,035 )	( 3,116,641,713 )
	<u>323,333,150</u>	<u>( 1,057,006,394 )</u>	<u>( 42,856,330 )</u>	<u>( 14,686,035 )</u>	<u>( 791,215,610 )</u>
Non-cash financing activities:					
Additions	-	53,412,320	18,147,837	1,081,662,310	1,153,222,468
Reclassification	-	( 78,939,409 )	78,939,409	-	-
Restatement of foreign currency denominated loans	2,596,454	-	-	-	2,596,454
	<u>2,596,454</u>	<u>( 25,527,089 )</u>	<u>97,087,246</u>	<u>1,081,662,310</u>	<u>1,155,818,922</u>
Balance at September 30, 2019	<u>P 10,811,421,979</u>	<u>P 3,811,676,951</u>	<u>P 234,508,718</u>	<u>P 1,126,857,517</u>	<u>P 15,984,465,165</u>
Balance as of January 1, 2018	P 7,714,366,413	P 2,455,814,577	P 161,979,645	P -	P 10,332,160,635
Cash flows from financing activities:					
Additions	2,975,255,891	2,723,117,984	-	-	5,698,373,875
Repayments	( 958,215,288 )	( 284,722,127 )	( 21,885,205 )	( 16,924,358 )	( 1,281,746,978 )
	<u>2,017,040,603</u>	<u>2,438,395,857</u>	<u>( 21,885,205 )</u>	<u>( 16,924,358 )</u>	<u>4,416,626,897</u>
Non-cash financing activities:					
Balance from acquired subsidiaries	777,327,956	-	-	-	777,327,956
Additions	-	-	40,183,362	76,805,600	116,988,962
Restatement of foreign currency denominated loans	( 23,242,597 )	-	-	-	( 23,242,597 )
	<u>754,085,359</u>	<u>-</u>	<u>40,183,362</u>	<u>76,805,600</u>	<u>871,074,321</u>
Balance at December 31, 2018	<u>P 10,485,492,375</u>	<u>P 4,894,210,434</u>	<u>P 180,277,802</u>	<u>P 59,881,242</u>	<u>P 15,619,861,853</u>

## 12.1 Term Loans

The details of the Group's term loans as of September 30, 2019 and December 31, 2018 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance	
				September 30, 2019	December 31, 2018
China Banking Corporation (CBC)	CSC shares of stocks/	6 years	4.50%	P 1,710,000,000	P 1,800,000,000
Development Bank of the Philippines (DBP)	Continuing Suretyship	15 years	6.50%	1,500,000,000	1,500,000,000
Philippine Business Bank (PBB)	MT Chelsea Providence				
	MV Eagle, MV Navigator	10 years	7.50%	898,763,090	976,884,263
CBC	MV Archer, MV Saturn	15 years	7.25%	800,000,000	-
PBB	Real Estate Mortgage	15 years	7.00%	775,000,000	800,000,000
DBP	Unsecured	15 years	6.50%	606,964,286	618,000,000
DBP	Trans - Asia 16, 17 and 18	15 years	6.95%	545,520,000	581,880,000
DBP	MV Pioneer, MV Reliance				
	MV San Pedro Calungsod				
	MV San Lorenzo Ruis Uno				
	MV St. Nicholas of Myra	15 years	6.50%	539,188,267	557,526,997
PBB	MV Salve Regina	15 years	7.00%	460,000,000	460,000,000
BDO Unibank, Inc. (BDO)	Trans - Asia 8, Trans - Asia 9,				
	Trans - Asia 10	10 years	4.25%	397,100,102	494,370,980
PBB	MV Stella Del Mar	15 years	7.00%	323,947,226	346,699,500
PBB	MT Chelsea Dominance	7 years	6.06%	259,484,400	308,137,725
CBC	MT Chelsea Charlize	7 years	3.25%	260,210,000	316,344,000
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	270,000,000	281,250,000
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	270,000,000	281,250,000
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	270,000,000	281,250,000
PBB	MT Chelsea Endurance	7 years	6.06%	220,090,000	261,356,875
CBC	Unsecured	10 years	7.00%	248,958,333	200,000,000
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	180,000,000	187,500,000
BDO	MT Chelsea Denise II	5 years	6.46%	115,360,000	149,980,000
Rizal Commercial Banking Corp.	Starlite Sprint I		9.50%	104,682,202	-
Asia United Bank (AUB)	Mtug Fortis VI, Mtug Fortis VII and Mtug Fortis VIII	7 years	5.56%	65,145,694	70,357,350
AUB	Mtug Fortis III and Mtug Fortis V	7 years	5.56%	49,045,474	56,789,496
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal Mtug Sigaboy	5 years	6.00% to 6.50%	-	2,321,621
				10,869,459,074	10,531,898,807
Discount on loans payable				( 58,037,095 )	( 46,406,432 )
				<u>P 10,811,421,979</u>	<u>P 10,485,492,375</u>

(a) *Omnibus Loan and Security Agreement (OLSA) with BDO – MT Great Princess and MT Chelsea Denise II*

In 2013, PN-X-Chelsea entered into a Memorandum of Agreement (MOA) with China Shipbuilding & Exports Corporation (CSEC) for the acquisition of one unit of oil tank (MT Great Princess) in the amount of US\$21,187,500. In connection with the acquisition of an oil tank vessel, PN-X-Chelsea entered into an OLSA amounting to US\$14.0 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. In September 2013, BDO granted the loan and released the first tranche amounting to US\$4.0 million. The second tranche was availed by PN-X-Chelsea in February 2014. The loan is payable for a period of five years from initial drawdown date in quarterly principal installments and any unpaid balance at maturity date, with two quarter grace period, commencing after the date of avilment of the second tranche. The loan bears effective interest rate of 5.25% per annum and does not include any covenant. This loan has been fully settled as of December 31, 2018.

In 2014, PN-X-Chelsea entered into a MOA with CSEC for the importation of one unit of oil tank vessel (MT Chelsea Denise II) from China for a total cost of US\$7,300,000. In connection with the MOA, PN-X-Chelsea entered into another OLSA with the same local bank for P300.0 million to finance the acquisition of MT Chelsea Denise II in 2014. The loan is subject to effective interest rate of 6.46% per annum and is payable for a quarterly basis for five periods commencing at the end of the fourth quarter of 2015.

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P0.2 million and P0.7 million, respectively, were amortized in 2018 and 2017 (nil in 2019) using the effective interest rates of 5.54% and 5.58% for each tranche. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated statements of profit or loss (see Note 17.1). Unamortized debt issuance costs are deducted against the current and non-current portion of the related interest-bearing loans.

The outstanding loan is secured by a chattel mortgage on MT Chelsea Denise II with net carrying amount of P506.0 million and P462.5 million as of September 30, 2019 and December 31, 2018, respectively (see Note 9). In addition, the OLSA provides that PNX-Chelsea should maintain a debt-to-equity ratio of not more than 2.00:1.00 and a debt service coverage ratio (DSCR) of at least 1.00. As of September 30, 2019, the Company has not met the minimum DSCR, Management believes that this failure will not have a material impact on the consolidated financial statements as this loan will be fully paid in 2020.

*(b) Term Loan Agreement (TLA) with CBC – MT Chelsea Charlize*

On May 23, 2016, PNX-Chelsea entered into a loan agreement with CBC amounting to US\$8.0 million to finance the acquisition of MT Chelsea Charlize. The loan is subject to annual interest rate of 3.25% and is payable in 24 equal quarterly installments commencing on August 23, 2017. The loan does not include any covenant.

The loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P417.8 million and P429.3 million as of September 30, 2019 and December 31, 2018, respectively (see Note 9).

*(c) TLA with PBB – MT Chelsea Endurance and MT Chelsea Dominance*

On July 25, 2016 and August 18, 2016, PNX-Chelsea entered into term loan agreements with PBB amounting to US\$6.5 million and US\$7.6 million to finance the acquisition of MT Chelsea Endurance and MT Chelsea Dominance, respectively. On the anniversary year, these loans were converted into peso loans. The loans are subject to annual effective interest rate of 6.06% and are payable in 24 equal quarterly installments with one-year grace period from date of each release. The loans do not include any covenant.

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P705.2 million and P707.8 million, as of September 30, 2019 and December 31, 2018, respectively (see Note 9).

*(d) TLA with AUB – MTug Fortis I, MTug Fortis II, MTug Fortis III and MTug Fortis V*

In 2013, FTC obtained interest-bearing loans from a bank to partially finance the acquisition of tugboats amounting to P100.0 million. The loan bears fixed interest rate at 7.0% for the first three periods from the initial drawdown date, and shall be repriced at the end of the third year from the initial drawdown date (the "Repricing Date"). The repriced rate shall be based on the relevant 2Y PDST-F as of the Repricing Date, plus a spread of 2.0% subject to a floor of 7.0%. The loan is payable in 18 quarterly installments over a period of five periods. The first payment will commence on the third interest payment date from the initial drawdown date. The last quarterly installment of the loan was settled on November 6, 2018.

On April 12, 2017, FTC obtained additional interest-bearing loans amounting to P69.7 million from the same bank to partially refinance the acquisition of MTug Fortis III and MTug Fortis V and for working capital requirements. The loan bears fixed interest rate of 5.56% and the principal is payable in 28 quarterly installments.

On October 5, 2018, FTC obtained additional interest-bearing loans amounting to P70.4 million from the same bank to partially refinance the acquisition of MTug Fortis VI, MTug Fortis VII, and MTug Fortis VIII and for working capital requirements. The loan bears fixed interest rate of 5.56% and the principal is payable in 28 quarterly installments.

Certain trade receivables amounting to P55.6 million and P43.4 million as of September 30, 2019 and December 31, 2018, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, certain tugboats of FTC with net carrying amounts of P289.4 million and P270.0 million as of September 30, 2019 and December 31, 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9). The loans do not include any covenant.

(e) *TLA with BDO – Trans-Asia 8, 9 and 10*

In 2014, Trans-Asia availed loans from BDO for the acquisition of MV Trans-Asia 10 totaling to P120.0 million at an interest rate of 4.5% per annum. Also, a loan amounting to P79.7 million was obtained from BDO to provide financing to Oceanstar for the purchase of MV Trans-Asia 8 and 9. Principal and interest payments on these loans are made monthly. Further, Trans-Asia made additional loans from BDO totaling to P263.5 million in 2016 at an interest rate of 4.25% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears. These loans do not include any covenant.

(f) *TLA with CBC – Trans-Asia*

Trans-Asia secured borrowings from CBC in 2010 in the amount of P135.0 million. This loan is payable for a term of ten periods inclusive of two periods grace period at 5.00% per annum. Interest is to be paid quarterly in arrears based on diminishing balance.

In addition, a loan from CBC amounting to P71.1 million was availed in 2015 at an interest rate of 4.50% per annum. Principal is payable monthly with a grace period of two periods and interest is payable monthly in arrears based on diminishing balance. This loan was used to partially finance the purchase of MV Trans-Asia 12, a vessel owned by one of its subsidiaries, Oceanstar. The loans do not include any covenant and were fully settled as of December 31, 2017.

(g) *TLA with UCPB and PBCComm – DGMSI*

In 2014, DGMSI obtained loans from UCPB and PBCComm to fund its acquisition of secondhand tugboats imported from Japan and Korea for use in the expansion of its business activity. The same loans are collateralized with three of its tugboats acquired and a time deposit placement amounting to P5.0 million. These loans have interest rates of ranging from 6.00% to 6.50% per annum, and are subject to annual resetting. These loans were settled as of September 30, 2019.

Certain vessels of DGMSI with net carrying amounts of P89.8 million as of December 31, 2018 were used as collateral to secure the payment of these loans (see Note 9). These loans have no existing covenants.



(h) *TLA with CBC*

In 2016, the Company obtained a P1.8 billion loan from CBC to finance the acquisition of the outstanding shares of CSC. The loan is subject to annual interest rate of 4.50% and is payable on a lump sum basis in 181 days. The loan is secured by means of mortgage, pledge, assignment or any other form of encumbrance upon any and all properties or assets of the Company's Chairman of the BOD [see Note 20.8(a)].

In 2017, the Company converted its P1.8 billion bank loan to a six-year term loan with a grace period of four quarters commencing from the date of conversion. The principal is payable in quarterly instalments with balloon payment at maturity and shall commence on the quarter after the grace period with the interest paid in arrears. The loan is secured by the same properties as mentioned in the initial bank loan.

(i) *TLA with CTBC, MICBC, RBC and FCB – Trans-Asia*

In 2017, Trans-Asia entered into a five-year loan facility agreement amounting to P300.0 million each with CTBC, MICBC and RBC and P200.0 million with FCB to bridge the facility obtained by CSC to fund the acquisition of Trans-Asia and for general working capital purposes. In the same year, Trans-Asia made a drawdown of P1,100.0 million loan to bridge the loan obtained by CSC in 2016. The loan is subject to annual interest rate of 6.10% and is payable on quarterly basis. Principal repayments shall be 5% of the loan in the first and second year, 15% in the third and fourth year and 60% in the fifth year of the drawdown.

The loan is secured by Trans-Asia shares with a carrying value of P525.0 million, a corporate guarantee by Udenna and individual surety of the Company's Chairman of the BOD [see Note 19.8(a)].

(j) *TLA with PBB – Starlite*

In 2015, Starlite entered into a 10-year term loan agreement amounting to P1,037.4 million with PBB to finance the acquisition of MV Eagle, MV Archer, MV Navigator and MV Saturn. The loans are subject to a fixed interest rate of 7.5% and the principal is payable in arrears.

In 2017, Starlite obtained a 15-year term loan agreement amounting to P800.0 million with PBB. The loan is subject to annual interest rate of 7.0% and principal repayments including the interest shall commence on the first quarter after a grace period of one year from the date of availment.

Certain vessels of Starlite with net carrying amounts of P1,144.8 million and P1,203.7 million as of September 30, 2019 and December 31, 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9).

(k) *TLA with DBP - Starlite*

In 2016 and 2015, Starlite entered into 15-year term loan agreements amounting to P306.0 million and P300.0 million, respectively, with DBP to finance the acquisition of MV Pioneer and MV Reliance. The loan is subject to annual interest rate of 6.95% and is payable on a quarterly basis. Principal repayments shall commence after the grace period of three periods.

Certain vessels of Starlite with net carrying amounts of P874.5 million and P753.6 million as of September 30, 2019 and December 31, 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9).

(l) *TLA with DBP – PNX-Chelsea*

On January 25, 2018, PNX-Chelsea entered into a loan agreement with DBP amounting to P575.0 million to refinance the acquisition of MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno and MV St. Nicholas of Myra. The loan is subject to annual interest rate of 6.50% and is payable in 60 equal quarterly installments commencing on the first quarter from the initial drawdown.

Certain trade receivables amounting to P12.3 million and P38.3 million as of September 30, 2019 and December 31, 2018, respectively, were assigned to secure payment of this interest-bearing loan (see Note 5). Moreover, certain vessels of PNX-Chelsea with net carrying amounts of P565.7 million of December 31, 2018 were used as collateral to secure the payment of these loans (see Note 9).

The agreement requires PNX-Chelsea to maintain debt-to-equity ratio of not more than 2.34:1.00. As of December 31, 2018, PNX-Chelsea has complied with these covenants.

(m) *TLA with DBP – Trans-Asia*

On May 2, 2018, Trans-Asia entered into a loan agreement with DBP amounting to P618.0 million to finance the acquisition of Trans-Asia 16, Trans-Asia 17 and Trans-Asia 18. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 15 years from the initial drawdown, inclusive of one-year grace period from the date of signing.

Certain vessels of Trans-Asia with net carrying amounts of P997.3 million and P840.5 million as of September 30, 2019 and December 31, 2018 were used as collateral to secure the payment of these loans (see Note 9).

(n) *TLA with DBP – CSC*

On September 28, 2018, CSC entered into a loan agreement with DBP amounting to P1.5 billion to refinance the acquisition of one second-hand oil/chemical tanker and one second-hand floating dock. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 15 years from the initial drawdown, inclusive of one-year grace period from the date of signing. This loan does not have an existing covenant.

A certain vessel of CSC with net carrying amount of P1,594.9 million and P1,620.1 million as of September 30, 2019 and December 31, 2018, respectively, was used as collateral to secure the payment of these loans (see Note 9).

(o) *TLA with PBB – SPFI*

In 2017, SPFI entered into a loan agreement with PBB amounting to P368.1 million to finance the acquisition of MV Stella Del Mar. The loan is subject to annual interest rate of 7.50% and is payable quarterly in arrears up to 10 years from the initial drawdown. Principal repayments shall commence after the grace period of six quarters.

The vessel of SPFI with net carrying amounts of P404.3 million and P449.7 million as of December 31, 2018 was used as a collateral to secure the payment of this loan (see Note 9).

(p) *TLA with PBB – SGFI*

In 2018, SGFI entered into a loan agreement with PBB amounting to P460.0 million to finance the acquisition of MV Salve Regina. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 10 years from the initial drawdown, inclusive of one-year grace period from the date of signing.

The vessel of SGFI with net carrying amounts of P776.8 million and P814.6 million as of September 30, 2019 and December 31, 2018 was used as a collateral to secure the payment of this loan (see Note 9).

(q) *TLA with RCBC – SFI*

In 2018, entered into a loan agreement with RCBC amounting to P175.0 million to finance the acquisition of Starlite Sprint I. The first drawdown of P105.0 million is payable in equal quarterly installments up to 8 years from the date of initial drawdown, i.e., July 19, 2019, inclusive of one year grace period. The loan is subject to annual interest rate based on 7-year fixed BVAL plus minimum spread of 1.50% and is payable on a quarterly basis.

The vessel of SFI with net carrying amounts of P223.5 million as of September 30, 2019 was used as a collateral to secure the payment of this loan (see Note 9).

(r) *OLSA with CBC – CLC and WSI*

On August 27, 2019, CLC and WSI entered into a loan agreement with CBC to finance the acquisition of a real estate property and for the construction of a warehouse facility on the said property amounting to P800.0 million and P450.0 million, respectively. The loan is subject to a fixed interest rate of 7.25% for the first ten years and subject to repricing for the remaining five years. On the interest rate resetting date, the interest rate shall be repriced and determined based on the higher of the benchmark rate and interest spread of 250 bps, divided by the interest premium of factor of 95% or a floor rate of 7.25%. The loan is payable on a quarterly basis up to 15 years from the initial drawdown, inclusive of two-years grace period from the date of signing. As of September 30, 2019, CLC has total drawdown amounting to P800.0 million from the term loan facility.

Debt issuance costs amounted to P9.4 million were recognized as of September 30, 2019 and deducted against the current and non-current portion of the related interest-bearing loans.

The property of the Company with net carrying amount of P1,193.7 million as of September 30, 2019 was used as a collateral to secure payment of this loan (see Note 9).

Interest incurred on these loans totaling P562.3 million, P329.1 million and P176.4 million in 2019, 2018 and 2017, respectively, is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 17.1) while the related unpaid interest as of September 30, 2019 and December 31, 2018 amounting to P37.6 million and P44.3 million, respectively, is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

## 12.2 Bank Loans

The details of the Group's bank loans are as follows:

	Security	Terms	Interest Rates	Outstanding Balance	
				September 30, 2019	December 31, 2018
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 7.50%	P 1,187,417,704	P 2,013,768,437
UCPB	MT Chelsea Intrepid				
	MT BMI Patricia	90 days	5.00% to 5.75%	895,700,000	920,200,000
CBC	Unsecured	60 days	6.00%	635,000,000	480,000,000
Landbank of the Philippines		90 days	9.00%	500,000,000	300,000,000
Pentacapital	Unsecured	360 days	6.00%	-	400,000,000
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%	300,000,000	300,000,000
Union Bank of the Philippines	Unsecured	360 days	4.50%	200,000,000	200,000,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	65,100,000	79,400,000
BDO Unibank Inc	Trans-Asia 1	180 days	6.50%	28,459,247	33,500,000
PVB	Unsecured	180 days	11.04%	-	167,341,997
				<b>P 3,811,676,951</b>	<b>P 4,894,210,434</b>

The bank loans were obtained to finance the drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of P1,842.7 million and P1,759.6 million as of September 30, 2019 and December 31, 2018, respectively (see Note 9).

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the consolidated statements of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2019 and December 31, 2018 is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

## 12.3 Mortgage Payables

	Security	Terms	Interest Rates	Outstanding Balance	
				September 30, 2019	December 31, 2018
BDO	Real Estate Mortgage	10 years	6.75%	P 178,516,426	P 109,997,080
Chinabank Savings	Chattel Mortgage on				
	Transportation Equipment	3 years	11.00% to 17.00%	30,259,075	38,503,117
RCBC	Chattel Mortgage on				
	Transportation Equipment	3 years	7.00%	10,999,643	2,410,776
AUB	Chattel Mortgage on				
	Transportation Equipment	3 to 5 years	7.00% to 8.50%	10,374,049	19,991,031
BDO	Chattel Mortgage on				
	Transportation Equipment	3 years	8.51%	1,238,161	3,045,821
PNB	Chattel Mortgage on				
	Transportation Equipment	1 year	7.30%	1,905,209	2,648,275
CBC	Chattel Mortgage on				
	Transportation Equipment	3 years	7.00%	509,733	1,986,724
BPI	Chattel Mortgage on				
	Transportation Equipment	3 years	10.28%	706,422	1,390,922
BDO	Chattel Mortgage on				
	Transportation Equipment	3 years	6.90% to 7.53%	-	304,056
				<b>P 234,508,718</b>	<b>P 180,277,802</b>

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rates ranging from 6.50% to 8.50% both in 2019 and 2018. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) section of the consolidated statements of profit or loss (see Note 18.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P351.6 million and P311.1 million as of September 30, 2019 and December 31, 2018, respectively (see Note 9).

## 12.4 Lease liabilities

Lease liabilities are presented in the consolidated statement of financial position as follows:

	Notes	September 30, 2019	December 31, 2018
Obligations under finance lease	19.2, 19.6	P 807,445,547	P 59,881,242
Lease liabilities		<u>319,411,970</u>	<u>-</u>
		<u>P 1,126,857,517</u>	<u>P 59,881,242</u>

### a. Obligations under finance lease

In 2019 and 2018, the Group entered into a finance lease agreement through sale and leaseback arrangement with a local bank to seek additional funding and accommodate expenses for the acquisition of certain machinery and equipment. These finance lease agreements have effective interest rates ranging from 6.49% to 6.76% per annum, payable in 48 equal monthly payments and are secured by a chattel mortgage on the Group's machinery and equipment. The carrying value of certain machinery and equipment under finance lease amounted to P837.2 million and P112.5 million as of September 30, 2019 and December 31, 2018, respectively. Total interest expense incurred for the nine months ended September 30, 2019 and 2018 is shown as part of Finance Costs under Other Income (Charges) section in the 2019 and 2018 consolidated statement of profit or loss (see Note 18.1). There was no similar transaction in 2017.

### b. Lease liabilities

The Group has leases for certain office space, warehouse and machinery equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 9).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office space and warehouse premises, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

Variable lease payments expensed on the basis that they are not recognised as a lease liability include rentals based on revenue from the use of the underlying asset and excess use charges on office equipment. Variable payment terms are used for a variety of reasons, including minimizing costs for IT equipment with infrequent use. Variable lease payments are expensed in the period they are incurred.

The carrying value of the underlying assets under lease liabilities amounted to P381.2 million as of September 30, 2019. Total interest expense incurred for the nine months ended September 30, 2019 and 2018 is shown as part of Finance Costs under Other Income (Charges) section in the 2019 and 2018 consolidated statement of profit or loss (see Note 18.1). There was no similar transaction in 2017.

### 13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	September 30, 2019	December 31, 2018
Trade payables	19.2, 19.6	<b>P 3,291,526,706</b>	P 2,645,692,295
Accrued expenses	12	<b>627,314,971</b>	404,482,927
Deferred output VAT		<b>203,780,708</b>	124,808,576
Advances from customers		<b>29,897,736</b>	14,484,333
Output VAT		<b>25,564,084</b>	28,895,294
Government-related obligations		<b>19,713,941</b>	196,937,914
Deposits payable		-	1,409,371
Provisions	22.5	<b>458,450</b>	458,450
Others		<b>68,004,880</b>	93,977,210
		<b><u>P 4,266,261,476</u></b>	<b><u>P 3,511,146,370</u></b>

Accrued expenses comprise amounts to be paid in relation to repairs and maintenance, fuel and lubricants, interest expense arising from loans, and professional fees rendered to the Group.

Deferred output VAT pertains to taxes payable based on VATable revenues from services rendered, which remained uncollected as of the end of the reporting periods.

#### 14. COST OF SALES AND SERVICES

The details of this account for each of the nine months ended September 30 are shown below.

	Notes	2019	2018	2017
Bunkering	19.2	P 1,153,302,168	P 735,038,443	P 381,143,995
Depreciation and amortization	9	875,504,788	600,420,763	388,310,080
Salaries and employee benefits	16.1	491,074,901	387,725,066	203,237,359
Outside services		184,675,865	101,037,343	58,435,401
Insurance		122,599,276	95,181,373	57,583,387
Port expenses		111,741,635	115,906,603	97,580,508
Repairs and maintenance		143,577,306	69,207,983	129,121,123
Charter hire fees		70,183,839	120,949,442	80,340,500
Supplies		57,709,042	64,442,465	23,415,355
Cost of inventories sold	22.3	46,608,844	6,662,630	17,351,947
Commission		34,008,992	2,389,816	1,243,020
Taxes and licenses		23,518,271	22,672,777	18,321,534
Rentals		21,033,768	37,592,510	-
Utilities and communication		11,074,995	12,631,167	2,037,614
Transportation and travel		9,125,034	13,702,291	10,997,424
Professional fees		267,694	1,688,985	2,550,506
Miscellaneous		76,952,400	39,540,787	9,111,035
		<u>P 3,432,958,818</u>	<u>P 2,426,790,444</u>	<u>P 1,480,780,788</u>

#### 15. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the nine months ended September 30, 2019, 2018 and 2017 are presented below.

	Notes	2019	2018	2017
Bunkering	19.2	P 1,153,302,168	P 735,038,443	P 382,604,592
Depreciation and amortization	9	914,511,658	623,718,524	402,173,066
Salaries and employee benefits	16.1	807,328,732	613,346,044	286,273,267
Outside services		221,926,553	133,045,843	74,496,178
Port expenses		111,741,635	117,536,153	97,580,508
Repairs and maintenance		154,450,773	81,810,659	134,788,891
Insurance		129,435,457	98,054,086	60,844,912
Handling expenses		118,190,676	31,312,563	-
Taxes and licenses		102,621,548	141,293,539	90,614,204
Charter hire fees		70,183,839	120,949,442	80,340,500
Supplies		67,477,731	74,559,934	32,413,772
Rentals	19.3, 22.3	52,587,302	68,057,059	18,963,047
Commission		39,164,976	11,298,445	5,102,812
Cost of inventories sold		46,608,844	6,662,630	17,351,947
Advertising and promotions		43,523,606	4,986,465	-
Transportation and travel		30,897,708	33,610,752	23,937,548
Utilities and communication		30,124,174	27,311,440	9,218,337
Professional fees		23,780,714	17,906,882	21,962,952
Representation and entertainment		3,981,063	12,241,549	7,727,810
Miscellaneous	19.8(b)	71,099,718	64,689,059	32,500,147
		<u>P 4,192,938,875</u>	<u>P 3,017,429,511</u>	<u>P 1,778,894,490</u>

These expenses are classified in the consolidated statements of profit or loss as follows:

	Note	2019	2018	2017
Cost of sales and services	14	P 3,432,958,818	P 2,426,790,444	P 1,480,780,788
Other operating expense		<u>759,980,057</u>	<u>590,639,067</u>	<u>298,113,702</u>
		<u>P 4,192,938,875</u>	<u>P 3,017,429,511</u>	<u>P 1,778,894,490</u>

## 16. SALARIES AND EMPLOYEE BENEFITS

### 16.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the periods ended December 31, 2018, 2017 and 2016 are presented below.

	Notes	2019	2018	2017
Short-term employee benefits		P 803,840,653	P 608,082,747	P 283,261,500
Other employee benefits		<u>3,488,079</u>	<u>5,221,074</u>	<u>331,025</u>
Post-employment benefits	16.2(b)	<u>-</u>	<u>42,223</u>	<u>2,680,742</u>
	15	<u>P 807,328,732</u>	<u>P 613,346,044</u>	<u>P 286,273,267</u>

Other benefits include profit sharing, compensated absences, and other allowances.

These expenses are classified in the consolidated statements of profit or loss as follows:

	Notes	2019	2018	2017
Cost of sales and services	14	P 491,074,901	P 387,725,066	P 203,237,359
Other operating expense		<u>316,253,831</u>	<u>225,620,978</u>	<u>83,035,908</u>
	15	<u>P 807,328,732</u>	<u>P 613,346,044</u>	<u>P 286,273,267</u>

### 16.2 Post-employment Defined Benefits

#### (a) Characteristics of Post-employment Defined Benefit Plan

The Group maintains a funded, non-contributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five periods of credited service. Normal retirement benefit is an amount equivalent to 22.5 days' pay for every year of credited service.



The post-employment defined benefit plan of Trans-Asia also provides for an early retirement for employees who have served or worked continuously for a period equivalent to the last salary for every year of service as shown below.

- (i) For regular employees who were hired before December 1, 2006
  - more than two periods to five periods – 7.5 days per year of service
  - five periods and nine months to 10 periods – 15 days per year of service
  - ten periods and nine months to 15 periods – 22.5 days per year of service
  - 15 periods and nine months and above – 30 days per year of service
- (ii) For regular employees who were hired starting December 1, 2006
  - Five periods and nine months to nine periods – 7.5 days per year of service
  - Nine periods and nine months to 15 periods – 15 days per year of service
  - 15 periods and five months to 20 periods – 22.5 days per year of service
  - 20 periods and nine months and above – 30 days per year of service

Further, Trans-Asia has provided its employees an opportunity to avail an advance on their retirement benefit. These can be availed by employees who were hired before December 31, 2006 and has rendered more than two periods of service to Trans-Asia and by employees who has been hired starting December 31, 2006 and has rendered at least five periods and nine months of service to Trans-Asia. The total number of periods of service of employees who availed of advance payment of a portion of his/her retirement shall be deducted with the number of periods he/she availed as advance retirement.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent professional actuaries covering the year ended September 30, 2019 and December 31, 2018.

(i) *Post-employment Benefit Asset*

The amounts of post-employment defined benefit asset of CSC, Trans-Asia and MI as of September 30, 2019 and December 31, 2018, which is recognized in the consolidated statements of financial position are determined as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Fair value of plan assets	<b>P 48,867,276</b>	P 48,867,276
Present value of the obligation	<b>( 36,566,566)</b>	( 36,566,566)
	<b><u>P 12,300,710</u></b>	<b><u>P 12,300,710</u></b>

The movements in the present value of post-employment defined benefit obligation recognized as of September 30, 2019 and December 31, 2018 books are as follows:

	<b>September 30, 2019</b>	December 31, 2018
Balance at beginning of year	<b>P 36,566,566</b>	P 32,885,129
Reclassifications	-	8,472,010
Current service cost	-	6,956,458
Interest cost	-	2,357,357
Actuarial loss (gains) due to changes in:		
Financial assumptions	-	( 8,660,432 )
Experience assumptions	-	( 3,524,533 )
Demographic assumptions	-	( 702,855 )
Benefits paid	-	( 1,216,568 )
Balance at end of year	<b><u>P 36,566,566</u></b>	<b><u>P 36,566,566</u></b>

The movements in the fair value of plan assets in 2019 and 2018 are presented below.

	<b>September 30, 2019</b>	December 31, 2018
Balance at beginning of year	<b>P 48,867,276</b>	P 41,456,400
Reclassifications	-	4,179,665
Contributions	-	3,834,532
Interest income	-	2,515,640
Return on plan assets (excluding amounts included in net interest)	-	( 1,902,393 )
Benefits paid	-	( 1,216,568 )
Balance at end of year	<b><u>P 48,867,276</u></b>	<b><u>P 48,867,276</u></b>

The composition of the fair value of plan assets as at September 30, 2019 and December 31, 2018 by category and risk characteristics is shown below.

	<b>September 30, 2019</b>	December 31, 2018
Cash and cash equivalents	<b>P 5,319,102</b>	P 5,319,102
Debt securities:		
Philippine government bonds	<b>24,185,040</b>	24,185,040
Corporate bonds	<b>10,237,375</b>	10,237,375
Unit investment trust funds (UITF)	<b>6,063,965</b>	6,063,965
Equity securities	<b>2,354,103</b>	2,354,103
Others	<b><u>707,691</u></b>	<b><u>707,691</u></b>
	<b><u>P 48,867,276</u></b>	<b><u>P 48,867,276</u></b>

(ii) *Post-employment Benefit Obligation*

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Balance at beginning of year	P 35,162,375	P 42,261,263
Actuarial loss (gains) due to changes in:		
Demographic assumptions	-	( 10,373,729 )
Experience assumptions	-	( 3,212,270 )
Financial assumptions	-	( 2,787,177 )
Current service cost	-	17,822,363
Reclassifications	-	( 9,922,505 )
Interest cost	-	1,374,430
Balance at end of year	<u>P 35,162,375</u>	<u>P 35,162,375</u>

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P0.6 million in 2018.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

(iii) *Post-employment benefit expense*

The amounts of post-employment benefit expense recognized in the 2017 consolidated statement of profit or loss and consolidated statements of comprehensive income in respect of the defined benefit post-employment plan are as follows:

*Recognized in profit or loss:*

Current service cost	P 2,680,742
Net interest income	( <u>268,783</u> )
	<u>P 2,411,959</u>

*Recognized in other comprehensive loss –*

Return on plan assets (excluding amounts included in net interest expense)	<u>P 1,930,731</u>
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Current service cost is allocated and presented in the 2017 consolidated statements of profit or loss under the following accounts:

	<u>Notes</u>	
Cost of sales and services	15	P 1,875,881
Other operating expenses		<u>805,861</u>
	17.1	<u>P 2,681,742</u>

The net interest income earned related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 18.1).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation as at September 30, 2019 and December 31, 2018, the following actuarial assumptions were used:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Discount rates	<b>5.70%</b>	5.70%
Expected rate of salary increase	<b>7.40%</b>	7.40%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities and UITF. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2018.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
<u>December 31, 2018</u>			
Discount rate	+/- 1.0%	( P 5,607,191 )	P 6,275,243
Salary growth rate	+/- 1.0%	6,477,769 (	5,569,717)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the consolidated statements of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as of September 30, 2019 and December 31, 2018 consists of cash and cash equivalents and equity and debt securities, although the Group also invests in UITF. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

There has been no change in the Group's strategies to manage its risks from the previous period.

(iii) *Funding Arrangements and Expected Contributions*

As of September 30, 2019 and December 31, 2018, the plan is underfunded by P22.9 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 periods' time when a significant number of employees is expected to retire.

The Group expects to make contribution of P2.4 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within the next 10 periods from December 31, 2018 follows:

	<u>2019</u>	<u>2018</u>
One to five years	P 42,489,272	P 42,489,272
More than five years but not more than ten years	<u>74,866,629</u>	<u>74,866,629</u>
	<u>P 117,355,901</u>	<u>P 117,355,901</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is not presented since the Group had not engaged the services of a qualified actuary in the measurement of its post-employment defined benefit obligation as of September 30, 2019 and December 31, 2018.

**17. OTHER INCOME (CHARGES) - Net**

**17.1 Finance Costs**

The details of this account for the nine months ended September 30, 2019, 2018 and 2017 are shown below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest expense on :				
Interest-bearing loans	12	P 841,012,139	P 455,512,746	P 402,566,577
Lease liabilities		9,231,539	-	-
Deficiency income taxes	17.2(b)	<u>691,897</u>	<u>-</u>	<u>-</u>
		850,935,575	455,512,746	402,566,577
Foreign currency exchange losses – net		2,596,454	67,304,765	148,192,880
Bank charges		<u>1,751,837</u>	<u>3,714,317</u>	<u>2,181,389</u>
		<u>P 855,283,866</u>	<u>P 526,531,828</u>	<u>P 552,940,846</u>

**17.2 Finance Income**

The breakdown of this account for the nine months ended September 30, 2019, 2018 and 2017 are shown below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest income	P 619,702	P 1,361,433	P 1,716,620
Foreign currency exchange gains	<u>-</u>	<u>-</u>	<u>104,415,111</u>
	<u>P 619,702</u>	<u>P 1,361,433</u>	<u>P 106,131,731</u>

### 17.3 Other Income

Presented below are the details of other income for the nine months ended September 30, 2019, 2018 and 2017.

	Notes	2019	2018	2017
Handling and trucking		P 131,410,756	P 103,054,976	P 35,119,315
Rental income	19.3, 22.2	20,739,717	4,611,941	5,306,552
Rebates		-	8,000,000	14,828,417
Miscellaneous		53,306,428	13,739,690	12,693,699
		P 205,456,901	P 129,406,607	P 67,947,983

Handling and trucking pertains to excess customer charges over amounts payable to various truckers.

Rebates pertain to the share of Trans-Asia on all cargo handling charges based on the Cebu Port Authority Tariff rates.

Miscellaneous includes gain on sale of scrap materials, excess customer charges over baggage, beddings and other services.

## 18. TAXES

### 18.1 Registration with the Board of Investments (BOI)

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Great Diamond and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Group is entitled to tax and non-tax incentives, which include a six-year income tax holiday (ITH). Meanwhile, the tax incentive for MT Great Diamond started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered activities.

Starlite had also registered MV Archer, MV Saturn, MV Eagle, MV Reliance and MV Pioneer which commenced on March 2017, August 2016, May 2016, April 2016 and December 2015, respectively, for a period of four periods. As a registered entity, Starlite is entitled to tax and non-tax incentives, which includes a four-year ITH. ITH incentives shall be limited only to the revenues generated by the registered activities.

In 2019 and 2018, the PNX-Chelsea's BOI registration of MT Chelsea Dominance and MT Chelsea Charlize, which commenced in November 2016 and September 2015, respectively, for a period of four periods, was transferred to the Group following its acquisition. The tax and non-tax incentives of MT Chelsea Dominance and MT Chelsea Charlize are similar to that of MT Great Princess and MT Chelsea Denise II.

## 18.2 Current and Deferred Taxes

The components of tax expense (income) as reported in the consolidated statements of profit and loss and other comprehensive income are shown below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Recognized in profit or loss:</i>			
Regular corporate income tax	P 77,883,872	P 108,771,208	P 94,375,449
Minimum corporate income tax (MCIT)	3,286,502	816,834	433,433
Final tax at 20% and 7.5%	<u>1,326,794</u>	<u>86,539</u>	<u>165,075</u>
Deferred tax income relating to origination and reversal of temporary differences	82,497,168	109,674,581	94,973,957
	( <u>175,714,557</u> )	( <u>68,923,370</u> )	( <u>46,063,268</u> )
	<u>( P 93,217,389 )</u>	<u>P 40,751,211</u>	<u>P 48,910,689</u>
<i>Recognized in other comprehensive income —</i>			
Deferred tax expense (income) relating to origination and reversal of temporary differences	( <u>P 59,847,631</u> )	( <u>P 22,699,535</u> )	( <u>P 14,133,070</u> )

The reconciliation of tax on pretax profit (loss) computed at the applicable statutory rate to tax expense (income) reported in the consolidated statements of profit or loss is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tax on pretax profit (loss) at 30%	( P 21,980,019 )	P 25,129,341	P 60,222,604
Adjustments for income subjected to lower tax rates	( <u>663,397</u> )	( <u>47,232</u> )	( <u>135,125</u> )
Tax effects of:			
Nondeductible expenses	16,471,552	51,157,261	18,366,319
Net profit on BOI-registered activities	( <u>66,859,614</u> )	( <u>33,344,719</u> )	( <u>7,924,550</u> )
Nontaxable income	( <u>20,185,911</u> )	( <u>3,720,364</u> )	( <u>18,716,031</u> )
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)	-	1,576,924	2,910,574
Excess of optional standard deduction	<u>-</u>	<u>-</u>	( <u>5,813,102</u> )
	<u>( P 93,217,389 )</u>	<u>P 40,751,211</u>	<u>P 48,910,689</u>



The net deferred tax assets of the Company and certain subsidiaries pertain to the following:

	<b>September 30, 2018</b>	December 31, 2017
NOLCO	<b>P 445,514,435</b>	P 393,628,519
Revaluation reserves on property and equipment	<b>( 109,078,142)</b>	( 123,064,147)
Capitalized borrowing costs	<b>( 7,069,055)</b>	( 7,069,055)
MCIT	<b>9,170,074</b>	5,883,572
Post-employment benefit obligation	<b>5,451,771</b>	5,451,771
Impairment losses on trade and other receivables	<b>2,507,974</b>	2,507,974
Impairment losses on property and equipment	<b>611,054</b>	611,054
Accrued expenses	<b>72,000</b>	72,000
Unrealized foreign currency exchange gains – net	<b>4,948,745</b>	4,948,745
Others	<b><u>375,132</u></b>	<u>375,132</u>
	<b><u>P 352,503,988</u></b>	<u>P 283,345,565</u>

The net deferred tax liabilities of certain subsidiaries as of September 30, 2019 and December 31, 2018 are as follows:

	<b>September 30, 2019</b>	December 31, 2018
Revaluation reserves on property and equipment	<b>( P 97,062,183)</b>	( P 100,009,056)
NOLCO	<b>23,137,548</b>	14,197,287
Revaluation surplus on disposed vessel	<b>( 3,036,983)</b>	( 3,036,983)
Impairment losses on long-term financial assets	<b>2,721,268</b>	2,721,268
Accrued expenses	<b>2,057,831</b>	2,057,831
Post-employment benefit obligation	<b>1,857,339</b>	1,857,339
MCIT	<b>224,834</b>	224,834
Provisions	<b>137,535</b>	137,535
Impairment losses on trade and other receivables	<b>51,291</b>	51,291
Unrealized foreign currency exchange gains – net	<b>4,490</b>	4,490
Others	<b><u>( 677,264)</u></b>	<u>( 677,264)</u>
	<b><u>(P 70,584,294)</u></b>	<u>( P 82,471,428)</u>

The net deferred tax income reported in the consolidated statements of profit or loss and consolidated statements of comprehensive income is shown below.

	2019		2018		2017	
	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income
Deferred tax expense (income):						
NOLCO	( P 60,826,177 )	P -	( P 53,031,978 )	P -	( P 30,086,624 )	P -
Revaluation reserves of vessels	( 76,780,509 )	( 59,847,631 )	( 16,859,007 )	( 22,699,535 )	( 15,899,019 )	( 14,712,289 )
Post-employment benefit obligation	-	-	-	-	-	579,219
Unrealized foreign currency loss – net	-	-	319,139	-	230,793	-
MCIT	( 3,286,502 )	-	648,477	-	( 433,433 )	-
Others	-	-	-	-	125,015	-
	( P 140,893,188 )	( P 59,847,631 )	( P 68,923,369 )	( P 22,699,535 )	( P 46,063,268 )	( P 14,133,070 )

The details of the Group's NOLCO and MCIT are shown below.

Year	Original Amount	Applied in Previous Periods	Expired Balance	Remaining Balance	Valid Until
<b>NOLCO:</b>					
2019	P 202,753,924	P -	P -	P 202,753,924	2022
2018	452,967,583	-	-	452,967,583	2021
2017	906,451,769	-	-	906,451,769	2020
2016	10,638,820	10,638,820	-	-	2019
	<b>P 1,572,812,096</b>	<b>P 10,638,820</b>	<b>P -</b>	<b>P 1,562,173,276</b>	
<b>MCIT:</b>					
2019	P 3,286,502	P -	P -	P 3,286,502	2022
2018	942,908	-	-	942,908	2021
2017	772,955	-	-	772,955	2020
2016	4,392,543	-	-	4,392,543	2019
	<b>P 9,394,908</b>	<b>P -</b>	<b>P -</b>	<b>P 9,394,908</b>	

The Group is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher.

In both 2019 and 2018, the Group opted to claim itemized deductions in computing for its income tax due.

## 19. RELATED PARTY TRANSACTIONS

The Group's related parties include Udenna, related parties under common ownership, associate, the Group's key management personnel and stockholders.

A summary of the Group's transactions with its related parties for the nine months ended September 30, 2019, 2018 and 2017 and the related outstanding balances as of September 30, 2019 and December 31, 2018 is presented below.

Related Party Category	Notes	Amounts of Transactions			Outstanding Balances	
		2019	2018	2017	September 30, 2019	December 31, 2018
<b>Parent —</b>						
Cash advances granted	19.4	( P 2,342,034,227 )	( P 231,689,356 )	P 6,290,067,914	P 604,914,777	P 2,946,949,004
<b>Associate —</b>						
Chartering of services rendered	19.1	178,182,863	277,036,378	-	12,230,400	38,277,400
<b>Related parties under common ownership:</b>						
Chartering of services rendered	19.1	552,727,249	469,021,447	411,740,679	256,350,410	185,639,320
Fuel purchases	19.2	1,064,496,116	184,880,024	98,036,541	( 1,411,221,009 )	( 67,824,287 )
Acquisition of CSC's shares	19.6	-	-	-	( 500,000,000 )	( 500,000,000 )
Rental income	19.3	3,003,290	3,801,723	3,777,726	221,200	571,219
Rental expense	19.3	1,757,436	1,243,133	1,806,667	( 207,713 )	( 408,341 )
Donation	19.8(b)	270,000	270,000	270,000	( 30,000 )	( 210,000 )
Cash advances granted	19.4	33,343,613	276,045,496	( 194,446,078 )	213,949,818	180,606,205
Cash advances obtained	19.4	527,860,048	920,963,439	( 117,338,279 )	( 563,958,716 )	( 36,098,668 )

The Group's outstanding receivables with related parties were subjected to impairment testing using PFRS 9's ECL model (see Note 25.2).

Unless otherwise stated, the outstanding receivables and payables from and to related parties are unsecured, noninterest-bearing and are generally settled in cash upon demand or through offsetting arrangement with the related parties.

### 19.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI), a related party under common ownership, and 2GO, an associate, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the consolidated statements of profit or loss. The related outstanding receivable as of March 31, 2019 and December 31, 2018, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest as the credit terms range from 30 to 45 days. Further, no impairment loss was recognized on the outstanding receivables from related parties as of September 30, 2019 and December 31, 2018 based on management's assessment.

### 19.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI, a related party under common control. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the consolidated statements of profit and loss (see Note 14) while the remaining fuel and lubricants inventory amounting to P169.6 million and P49.0 million as of September 30, 2019 and December 31, 2018, respectively, are included as part of the Inventories account in the consolidated statements of financial position (see Note 7). The outstanding liability, which are unsecured, and do not bear any interest as the credit terms range from 30 to 90 days, arising from these transactions as of September 30, 2019 and December 31, 2018 is presented as part of Trade payables and Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

### 19.3 Rentals

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related expense is presented as part of Rentals under Other Operating Expenses in the consolidated statements of profit or loss (see Note 15). The outstanding security deposits arising from this transaction is presented as part of Security deposits under the Other Current Assets accounts in the consolidated statements of financial position (see Notes 8 and 22.3).

Furthermore, the Group bills a related party under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as Rental income under the Other Income (Charges) section of the consolidated statements of profit or loss (see Note 17.3). The related receivable as of September 30, 2019 and December 31, 2018, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest and are normally due within 30 days. No impairment loss was recognized on the outstanding receivables from these transactions as management has determined that such financial assets are fully collectible.

### 19.4 Advances to and from Related Parties

In the normal course of business, the Group grants and obtains unsecured, noninterest-bearing cash advances to and from its related parties mainly for working capital requirements and to bridge financing of vessel acquisitions pending draw down of related loans. As of September 30, 2019 and December 31, 2018, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position. These advances have no repayment terms and are payable in cash on demand or through offsetting arrangement with the related parties.

The movement of Advances to Related Parties in 2019 and 2018 follows:

	<b>September 30, 2019</b>	December 31, 2018
Balance at beginning of year	<b>P 3,127,555,209</b>	P 2,488,434,793
Net advances	<b>( 2,296,460,214 )</b>	639,120,416
Balance at end of year	<b><u>P 831,094,995</u></b>	<b><u>P 3,127,555,209</u></b>

Based on management's assessment, no impairment loss is recognized in 2019 and 2018 related to the advances granted to related parties (see Note 26.2).

The movement in the Advances from Related Parties account in 2019 and 2018 follows:

	<b>September 30, 2019</b>	December 31, 2018
Balance at beginning of year	<b>P 36,098,668</b>	P 1,040,772,152
Net advances (payments)	<b><u>527,860,048</u></b>	<b><u>( 1,004,673,484 )</u></b>
Balance at end of year	<b><u>P 563,958,716</u></b>	<b><u>P 36,098,668</u></b>

### **19.5 Transactions with Post-employment Benefit Plan**

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, and UITF with fair value totaling P48.9 million as of September 30, 2019 and December 31, 2018. As of September 30, 2019 and December 31, 2018, the Group's retirement fund do not include any investments in any debt or equity securities issued by the Group or any of its related parties.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 16.2.

### **19.6 Acquisition of CSC's Shares**

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of P2.0 billion. The carrying amounts of the consolidated assets and liabilities of CSC at the time of acquisition amounted to P8.4 billion and P5.4 billion, respectively. The excess of the net identifiable assets over the acquisition price is presented as Other Reserves under the equity section of the consolidated statements of financial position (see Note 22.3).

As of September 30, 2019 and December 31, 2018, the outstanding liability to PPPI arising from this transaction amounting to P500.0 million is payable upon demand and is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

### **19.7 Key Management Personnel Compensation**

The Group's key management personnel compensation includes short-term benefits and post-employment defined benefits and are included as part of Salaries and employee benefits under the Other Operating Expenses account in the consolidated statements of profit or loss (see Note 16).

### **19.8 Others**

- (a) Certain interest-bearing loans of the Group were secured by a corporate guarantee of Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Note 12).
- (b) The Group granted donations amounting to P0.3 million in 2019, 2018 and 2017 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by Udenna. This is presented as part of Miscellaneous under the Other Operating Expenses account in the consolidated statement of profit and loss (see Note 15).

## 20. EQUITY

### 20.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2019	2018	2019	2018
Authorized - P1 par value	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>P 2,000,000,000</u>	<u>P 2,000,000,000</u>
Issued and outstanding				
Balance at beginning and end of period	<u>1,821,977,615</u>	<u>1,821,977,615</u>	<u>P 1,821,977,615</u>	<u>P 1,821,977,615</u>

As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 million as of December 31, 2016 was fully collected in 2017.

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna (see Note 10). In addition, the Group recognized APIC amounting to P5,272,615,385, in the 2017 consolidated statement of financial position.

On July 11, 2017, the SEC issued an Order approving the Registration Statement covering the securities, which comprised the Company's outstanding capital stock. On August 8, 2017, the Company's shares were listed in the PSE and the trading of offer shares commenced. The Company offered to the public 546,593,000 primary shares at an offer price of P10.68 per share for a total gross proceeds of P5.8 billion. In addition, the Group recognized the APIC amounting to P4,725,754,772, net of issuance costs amounting to P565,265,468, in the 2017 consolidated statement of financial position. As at September 31, 2019 and December 31, 2018, the Company's listed shares closed at P6.88 and P6.46 per share, respectively.

### 20.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under the Revaluation Reserves account are shown in the succeeding page.

	Property and Equipment (see Note 9)	Post-employment Benefit Obligation (see Note 16.2)	Investment in Associate and a Joint Venture (see Note 10)	Cumulative translation adjustments	Total
Balance as of January 1, 2019	P 1,334,617,413	P 53,959,943	P 108,049,607	P 1,242,692	P 1,497,869,655
Revaluation increment	98,313,475	-	-	-	98,313,475
Currency exchange differences on translating financial statements of foreign operations				( 715,045 )	( 715,045 )
Depreciation transferred to retained earnings - revalued tankers	( 144,530,482 )	-	-	-	( 144,530,482 )
Other comprehensive income before tax	( 46,217,007 )	-	-	( 715,045 )	( 46,932,052 )
Tax income	( 16,488,487 )	-	-	-	( 16,488,487 )
Other comprehensive income after tax	( 62,705,494 )	-	-	( 715,045 )	( 63,420,539 )
Balance at September 30, 2019	<b>P 1,271,911,919</b>	<b>P 53,959,943</b>	<b>P 108,049,607</b>	<b>P 527,647</b>	<b>P 1,434,449,116</b>
Balance as of January 1, 2018	P 1,287,281,993	P 34,808,921	P 108,049,607	( P 223,517 )	P 1,429,917,004
Revaluation increment	167,829,312	-	-	-	167,829,312
Remeasurements of post-employment benefit obligation	-	27,358,603	-	-	27,358,603
Currency exchange differences on translating financial statements of foreign operations	-	-	-	1,466,209	1,466,209
Depreciation transferred to retained earnings - revalued tankers	( 100,207,283 )	-	-	-	( 100,207,283 )
Other comprehensive income before tax	67,622,029	27,358,603	-	1,466,209	96,446,841
Tax income	( 20,286,609 )	( 8,207,581 )	-	-	( 28,494,190 )
Other comprehensive income after tax	47,335,420	19,151,022	-	1,466,209	67,952,651
Balance at December 31, 2018	<b>P 1,334,617,413</b>	<b>P 53,959,943</b>	<b>P 108,049,607</b>	<b>P 1,242,692</b>	<b>P 1,497,869,655</b>

### 20.3 Other Reserves

Other reserves amounting to P1.0 billion pertain to the excess of the net identifiable assets of CSC amounting to totaling P3.0 billion over the Company's acquisition price of P2.0 billion. The business combination entered was accounted for under the pooling-of-interest method (see Note 20.6).

### 20.4 Non-controlling Interest

The balance as at September 30, 2019 and December 31, 2018 represents preferred shares subscription of certain individuals in Trans-Asia. These shares are non-voting, redeemable at the option of Trans-Asia.

## 21. EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Company's stockholders are computed as follows:

	2019	2018	2017
Net profit	<b>P 19,950,659</b>	P 43,013,258	P 151,831,323
Divided by weighted average shares outstanding	<b>1,821,977,615</b>	1,821,977,615	1,137,239,385
Earnings per share – basic and diluted	<b>P 0.011</b>	P 0.024	P 0.134

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of September 30, 2019 and December 31, 2018; hence, diluted earnings per share is equal to the basic earnings per share.

## 22. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

### 22.1 Charter Agreements

The Group has existing commitments to charterers under TC, CVC, and BB agreements, which ranges from two to five years, for the use of its vessels in transporting oil products for a fixed period. Also associated with these charter agreements is the obligation to keep the Group's vessels in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

### 22.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering certain office space. The leases have terms from one to five years, with renewal options, and include annual escalation from 5.0% to 10.0%. Commitments amounted P423,790 and P635,685 as of September 30, 2019 and December 31, 2018, respectively, and is expected to be settled within a year.

Rent income amounted to P3.0 million, P2.0 million and P1.8 million in 2019, 2018 and 2017, respectively, and is presented as part of Other income account under Other Income (Charges) – net section of the consolidated statements of profit and loss (see Note 17.3).

### 22.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under lease covering the usage of vessels, container yards, certain office and warehouse spaces. The leases have terms ranging from five to ten years, with renewal options, and includes annual escalation rate of 3.0% to 10.0%. The future minimum lease payables under this operating lease are as follows as of:

	<b>September 30, 2019</b>	December 31, 2018
Within one year	<b>P 52,708,773</b>	P 25,211,899
More than one year but not more than five years	<b>246,680,279</b>	97,802,296
More than five years	<b><u>33,792,832</u></b>	<u>34,929,111</u>
	<b><u>P 333,181,884</u></b>	<u>P 157,943,306</u>

The related security deposit on this operating lease amounted to P41.4 million and P11.5 million as of September 30, 2019 and December 31, 2018, respectively, and is shown as part of Security deposits under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11).



## 22.4 Finance Lease Commitments – Group as Lessee

The Group has finance leases covering certain machinery and equipment with terms maturing in 2021. The future minimum lease payment (MLP) under finance leases together with the present value (PV) of net minimum lease payments (NMLP) as of September 30, 2019 and December 31, 2018) follows:

	<u>MLP</u>	<u>PV of NMLP</u>
September 30, 2019:		
Within one year	P 113,515,949	P 62,587,726
After one year but not more than five years	374,804,507	193,384,333
More than five years	<u>577,487,362</u>	<u>551,473,488</u>
	1,065,807,818	807,445,547
Amounts representing finance charges	( <u>258,362,271</u> )	<u>-</u>
	<b><u>P 807,445,547</u></b>	<b><u>P 807,445,547</u></b>
December 31, 2018:		
Within one year	P 29,808,914	P 24,207,330
After one year but not more than five years	<u>39,414,096</u>	<u>35,673,912</u>
	69,223,010	59,881,242
Amounts representing finance charges	( <u>9,341,768</u> )	<u>-</u>
	<b><u>P 59,881,242</u></b>	<b><u>P 59,881,242</u></b>

Total liability relating the finance lease is shown as part of Interest-bearing Loans in the 2018 consolidated statement of financial position (see Note 12.4).

## 22.5 Legal Claims

In 2016, Trans-Asia was a defendant of a litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of P8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that Trans-Asia will be found liable; hence, a provision for the claim has been made in the consolidated financial statements. On August 9, 2017, Trans-Asia and the plaintiffs signed a compromise agreement whereby Trans-Asia paid P8.8 million.

In October 2017, three other complainants of the similar litigation that was filed against the Company related to a dispute with passengers for the sinking of M/V Asia South Korea signed a compromise agreement with the Company to which Trans-Asia paid P0.5 million. A provision for the claim with probable settlement amount of P0.8 million has been made in the consolidated financial statements. On June 1, 2018, Trans-Asia and the two plaintiffs signed a compromise agreement whereby Trans-Asia paid P0.2 million. The outstanding liability is presented as part of Provisions under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

## 22.6 Unused Lines of Credit

As of September 30, 2019 and December 31, 2018, the Group has unused lines of credit amounting to P1,084.2 million and P409.6 million, respectively.

## **22.7 Mergers and Acquisitions**

On June 28, 2018, the Company received the Philippine Competition Commission's (PCC) Decision which declared void the Company's acquisition of Trans-Asia in 2016 for failure to comply with the notification requirements of the PCC. A penalty of P22.8 Million was imposed by PCC against the Company and Udenna. On the same date, in its Decision regarding the Company's acquisition of additional direct shareholdings in KGLI-NM and consequent consolidation of ownership over 2GO, the PCC upheld said acquisition on account that the Trans-Asia acquisition had been declared void.

On July 13, 2018, the Company filed its Motion for Reconsideration of the June 28, 2018 Decision of the PCC on the Trans-Asia acquisition, and on July 18, 2018, it filed its Motion for Partial Reconsideration of the PCC Decision on the KGLI-NM acquisition wherein it prayed that it be allowed to proceed with the transaction without the PCC's imposed condition voiding the acquisition of Trans-Asia.

Subsequently, on September 5, 2018, the Company received the order of the PCC setting the Trans-Asia and the KGLI-NM acquisitions for joint hearing on September 17, 2018. At said hearing, the Company's Chairman, Dennis A. Uy, confirmed that the Company intends to proceed with the acquisition of Trans-Asia and that it agrees to be bound by the PCC's conditions and remedies to address the competition concerns arising from the Trans-Asia acquisition.

On September 21, 2018, the Company and Trans-Asia filed their separate Notification Forms on the Trans-Asia acquisition. Subsequently, in its October 4, 2018 Resolution, the PCC ruled that the Company's Motion for Reconsideration of the June 28, 2018 Decision is denied for being moot. In the same Resolution, the PCC reduced the penalty earlier imposed on Udenna and the Company to 1% of the Trans-Asia transaction or P 11.4 million.

On October 9, 2018, the Notice of Sufficiency from the PCC regarding the Notification Forms for the Trans-Asia acquisition was received and the Company paid the imposed penalty on October 10, 2018.

On October 19, 2018, the Company filed its Voluntary Commitments for the Trans-Asia acquisition and on January 11, 2019, the PCC resolved that it will not take further action on the said acquisition on the basis of the conditions provided in the Voluntary Commitments submitted by the Company. The Voluntary Commitments submitted by the Company include among others, price monitoring of passenger and cargo rates, submission of semi-annual reports on all trips of passenger and cargo services in the critical routes, explanation of all extraordinary rates increases in the critical routes, and maintenance of service quality of passenger and cargo routes based on customer satisfaction index developed by a third party monitor.

## **22.8 Shipbuilding Agreements**

On April 25, 2018, the Group signed two shipbuilding contracts for the delivery of two 98-meter bed/seat Ro-Ro type passenger ferry ships presently identified as Builder's Nos. S-1190 and S-1191. These ferry ships will be built at Kegoya Dock's shipyard in Hiroshima Prefecture, Japan and will be delivered in October 2019 and April 2020, respectively. As part of these shipbuilding agreements, the Group has initially paid an amount equivalent to P490.3 million and is presented as part of Construction under progress under the Property and Equipment account of the 2019 consolidated statement of financial position (see Note 11). Total capital commitments amounted to P1,588.1 million and P1,886 million as of September 30, 2019 and December 31, 2018, respectively.

## 22.9 Others

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which have not been reflected in the Group's consolidated financial statements. Management is of the opinion that losses, if any, from other commitments and contingencies will not have material effects on the Group's consolidated financial statements.

## 23. GOODWILL

In 2018, the Company acquired 100% ownership interest in SPFI and SGFI for a total consideration amounting to P90.6 million, and P14.2 million, respectively. The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition were as follows:

	SFPI		SGFI		Total	
Cash and cash equivalents	P	12,731,674	P	2,603,783	P	15,335,457
Trade and other receivables		25,930,140		910,938		26,841,078
Inventories		3,151,286		128,334		3,279,620
Property and equipment		451,942,901		542,325,953		994,268,854
Other non-current assets		986,754		122,850		1,109,604
Trade and other payables	(	82,476,819)	(	75,366,829)	(	157,843,648)
Interest-bearing loans	(	317,249,752)	(	460,078,204)	(	777,327,956)
Net Assets	<b>P</b>	<b>95,016,184</b>	<b>P</b>	<b>10,646,825</b>	<b>P</b>	<b>105,663,009</b>

The excess of acquisition costs over the net assets of SGFI amounting to P3.5 million is presented as part of Goodwill account in the 2018 consolidated statement of financial position. The goodwill recognized comprises the value of expected synergies from the acquisition of the subsidiaries.

In addition, the fair values of the identifiable assets and liabilities assumed from SPFI as at the date of acquisition were determined to be higher than the total cost; hence, the Group recognized a gain amounting to P4.4 million and is presented as Gain on bargain purchase under Other Income (Charges) section of the 2018 consolidated statement of profit or loss.

In 2017, the Company acquired 100% ownership interest in UIBV, WSI and Starlite for a total consideration of P6,048.0 million, P600.0 million and P1,677.8 million, respectively. The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition were as follows:

	UIBV		WSI		Starlite		Total	
Cash and cash equivalents	P	25,508,842	P	65,588,642	P	88,983,637	P	180,081,121
Trade and other receivables		765,659		63,365,673		844,057,036		908,188,368
Prepayments and other current assets	-			4,936,396		89,270,689		94,207,085
Property and equipment	-			13,864,952		2,301,692,380		2,315,557,332
Investment in associate	2,104,212,296		-		-			2,104,212,296
Other non-current assets	-			5,614,686		11,470,799		17,085,485
Trade and other payables	-	(	18,282,601)	(	360,025,772)	(		378,308,373)
Interest-bearing loans	-	(	7,561,112)	(	2,446,689,650)	(		2,454,250,762)
Other non-current liabilities	-	(	6,025,955)	(	18,663,921)	(		24,689,876)
Net Assets	<b>P</b>	<b>2,130,486,797</b>	<b>P</b>	<b>121,500,681</b>	<b>P</b>	<b>510,095,198</b>	<b>P</b>	<b>2,762,082,676</b>

The excess of acquisition costs over the net assets of UIBV, WSI and Starlite amounting to P3,917.4 million, P478.5 million and P1,167.7 million, respectively, is presented as part of Goodwill account in the 2017 consolidated statement of financial position. The goodwill recognized comprises the value of expected synergies from the acquisition of the subsidiaries.

The revenues and net profit recognized by UIBV, WSI and Starlite at the date of acquisition were as follows:

	UIBV	WSI	Starlite	Total
Revenues	P -	P 192,467,905	P 786,745,751	P 979,213,656
Net Profit	P -	P 45,611,439	P 59,764,337	P 105,375,776

In prior years, the Company acquired 100% ownership interest in BMI and MI. The fair value of the net assets of BMI and MI as of the acquisition date amounted to P21.6 million and P1.1 million, respectively. As such, goodwill amounting to P10.4 million for BMI and P63.9 million for MI representing excess of purchase price over the fair value of their respective net assets and net liability was recognized in the consolidated statements of financial position.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. Management used different approaches in determining the recoverable amount of the recorded Goodwill.

Management's impairment analysis for Starlite and WSI were based on discounted cash flows based on each cash generating unit's 10-year financial projections using each entity's weighted average cost of capital as the discount rate. The weighted average cost of capital of SFI and WSI were computed based on the capital asset pricing model. Further, the impairment analysis generally assumes inflation rate of 6.00% and terminal growth rate of 3.74%, which was based on the forecasted Philippine long-term growth rate. Revenue projections were based on the capacities of existing and projected capital expenditures within the ten-year period. Management also assess the entities will continue as a going concern entity and will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support its business needs.

On the other hand, the Company engaged a third party consultant to perform an independent impairment testing of goodwill for UIBV. The third party consultant performed a relative valuation analysis based on comparable shipping and logistics companies that are publicly-listed within the Association of Southeast Asian Nations. The third party consultant's valuation report was dated October 31, 2018 and management has assessed that there is no significant change since the date of the report.

Based on these analyses, management has assessed that no impairment of goodwill is required to be recognized in 2019 and 2018.

## 24. SEGMENT INFORMATION

### 24.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

- (a) Shipping services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;
- (b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;
- (c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas;
- (d) Distribution and warehousing services is involved in the logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crating, etc.
- (e) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels; and,
- (f) Investing and other activities include holding companies.

Segment accounting policies are the same as the policies described in Note 2.4.

#### ***24.2 Segment Assets and Segment Liabilities***

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

#### ***24.3 Intersegment Transactions***

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination in 2018, 2017 and 2016.

#### ***24.4 Analysis of Segment Information***

The tables in the succeeding page present revenue and profit information regarding business segments for the periods ended September 30, 2019 and December 31, 2018 and 2016 and certain asset and liability information regarding segments as at September 30, 2019 and December 31, 2018.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
<b>September 30, 2019</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 1,593,790,318	P 252,646,225	P 2,788,146,466	P 327,617,504	P 192,001,126	P -	P 5,154,201,639
Intersegment sales	263,346,818	-	53,604,025	-	-	244,024,979	( 560,975,822 )	-
Total revenues	263,346,818	1,593,790,318	306,250,250	2,788,146,466	327,617,504	436,026,105	( 560,975,822 )	5,154,201,639
Cost of sales and services	-	1,234,141,180	232,946,763	1,773,904,688	181,195,981	308,399,210	( 297,629,004 )	3,432,958,818
Other operating expenses	135,740,721	157,211,740	41,492,704	530,177,236	77,881,171	83,166,136	( 265,689,651 )	759,980,057
Operating profit (loss)	127,606,097	202,437,398	( 21,793,242 )	484,064,542	68,540,352	44,460,759	2,342,833	961,262,764
Finance costs	( 51,203,954 )	( 431,452,533 )	( 7,077,927 )	( 361,473,773 )	( 2,387,968 )	( 2,114,926 )	-	( 855,711,081 )
Share in net income of an associate	( 384,895,016 )	-	-	-	-	-	-	( 384,895,016 )
Finance income	159,858	102,804	6,938	283,399	-	66,703	-	619,702
Other income	70,000,000	146,364,755	5,133,972	184,137,293	421,060	742,653	( 201,342,833 )	205,456,901
Profit (loss) before tax	( 238,333,015 )	( 82,547,576 )	( 23,730,259 )	307,011,461	66,573,444	43,155,190	( 199,000,000 )	( 73,266,730 )
Tax expense (income)	35,957,825	( 108,399,194 )	8,669,047	( 66,382,721 )	24,357,797	12,579,857	-	( 93,217,389 )
Net profit (loss)	( P 274,290,840 )	P 25,851,618	( P 32,399,306 )	P 373,394,182	P 42,215,647	P 30,575,333	( P 199,000,000 )	P 19,950,659
<b>SEGMENT ASSETS AND LIABILITIES</b>								
Total assets	P 18,994,435,500	P 13,362,192,707	P 1,170,614,891	P 12,396,141,534	P 524,658,113	P 416,011,926	( P 12,915,753,022 )	P 33,948,301,650
Total liabilities	P 5,119,416,939	P 8,919,370,561	P 567,851,247	P 9,596,436,330	P 313,928,860	P 120,575,045	( P 3,659,533,334 )	P 20,978,045,648
<b>September 30, 2018</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 1,268,461,885	P 221,912,729	P 2,013,692,318	P 190,659,691	P -	P -	P 3,694,726,623
Intersegment sales	224,768,902	-	-	-	-	295,467,094	( 520,235,996 )	-
Total revenues	224,768,902	1,268,461,885	221,912,729	2,013,692,318	190,659,691	295,467,094	( 520,235,996 )	3,694,726,623
Cost of sales and services	-	664,332,701	158,606,669	1,569,779,568	102,380,874	227,157,726	( 295,467,094 )	2,426,790,444
Other operating expenses	134,500,654	237,599,217	50,311,190	310,159,244	40,614,977	44,160,689	( 226,706,904 )	590,639,067
Operating profit (loss)	90,268,248	366,529,967	12,994,870	133,753,506	47,663,840	24,148,679	1,938,002	677,297,112
Finance costs	( 22,648,175 )	( 303,722,610 )	( 4,065,075 )	( 195,444,698 )	( 428,401 )	( 222,869 )	-	( 526,531,828 )
Share in net income of an associate	( 197,768,855 )	-	-	-	-	-	-	( 197,768,855 )
Finance income	275,354	162,186	234,498	504,090	177,647	7,658	-	1,361,433
Other income	1,241,013	7,749,167	-	121,243,239	91,498	1,019,692	( 1,938,002 )	129,406,607
Profit (loss) before tax	( 128,632,415 )	70,718,710	9,164,293	60,056,137	47,504,584	24,953,160	-	83,764,469
Tax expense (income)	29,589,615	( 50,726,702 )	9,910,870	25,978,505	17,650,116	8,348,806	-	40,751,211
Net profit (loss)	( P 158,222,030 )	P 121,445,412	( P 746,577 )	P 34,077,632	P 29,854,468	P 16,604,354	P -	P 43,013,258
<b>SEGMENT ASSETS AND LIABILITIES</b>								
Total assets	P 19,652,340,884	P 14,085,920,827	P 1,050,949,325	P 8,659,526,666	P 219,035,209	P 118,631,886	( P 12,918,170,341 )	P 30,868,234,456
Total liabilities	P 5,449,666,309	P 9,360,826,646	P 529,915,997	P 6,967,404,596	P 63,496,385	P 99,940,072	( P 4,856,382,801 )	P 17,614,867,204

## 24.5 Disaggregation of Revenues from Contracts with Customers

When the entity prepares its investor presentations and when the Group's Executive Committee evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Note 24.4. The Group determines that the categories used in the investor presentations and financial reports used by the Group's Executive Committee can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Shipping services segment mainly pertains to revenues from charter fees and standby charges, while tugboats services segment refers to revenues from tugboat fees. Roll-on/roll of passenger shipping services segment includes revenues from passage and freight, while distribution and warehousing, and ship management and crewing services segments pertain to revenues from rendering of services. All revenues presented in the segment information are recognized over time, except for those arising from standby services amounting to P58.5 million, and sale of goods amounting to P63.8 million, which are recognized at point in time and those arising from TC and BB agreements amounting to P294.2 million, which qualifies as a lease (see Note 2.16).

## 25. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 27. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent Group, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

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

### 25.1 Market Risks

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

#### (a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's cash, trade and other receivables and interest-bearing loans, which are primarily denominated in U.S. dollars.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the September 30, 2019 and December 31, 2018 closing rates follow:

	<b>September 30, 2019</b>	December 31, 2018
Financial assets	<b>P 12,081,728</b>	P 10,647,346
Financial liabilities	<b>( 260,210,000)</b>	( 316,344,000)
Net exposure	<b>(P 248,128,272)</b>	(P 305,696,654)

If the Philippine peso had strengthened against the U.S. dollar, loss before tax in 2019 would have decreased by P32.1 million and profit before tax in 2018 would have increased by P39.1 million. If the Philippine peso had weakened against the U.S. dollar, then this would have increased loss and decreased profit before tax in 2019 and 2018, respectively, by the same amount. This sensitivity of the net result for the period assumes a +/- 12.95% change of the Philippine peso/U.S. dollar exchange rate for the periods ended September 30, 2019 and December 31, 2018, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous nine months for 2019 and 12 months in 2018 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) *Interest Rate Sensitivity*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At September 30, 2019 and December 31, 2018, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 12). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

Cash in banks are tested on a reasonably possible change of +/- 0.76% and +/- 0.54% in 2019 and 2018, respectively. Banks loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.43% and +/- 0.23% in 2019 and 2018, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous nine months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- P2.3 million and +/-P1.9 million for the periods ended September 30, 2019 and December 31, 2018, respectively.

**25.2 Credit Risk**

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting advances and rendering services to customers and related parties and by placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position as summarized below.

	Notes	September 30, 2019	December 31, 2018
Cash and cash equivalents	4	P 545,927,158	P 443,495,969
Trade and other receivables – net (excluding advances to officers and employees)	5	2,303,095,797	1,369,911,121
Restricted cash	8, 11	20,743,270	1,637,081
Security deposits	8, 11	81,984,966	40,529,028
Advances to related parties	19.4	831,094,995	3,127,555,209
		<b>P 3,782,846,186</b>	<b>P 4,983,128,408</b>

None of the financial assets are secured by collateral or other credit enhancements, except for cash as described below.



The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash are cash and cash equivalents which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

The Group applies the PFRS 9 simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before December 31, 2018, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at September 30, 2019 and December 31, 2018 was determined based on months past due, as follows for both trade and other receivables.

	Current	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	Total
<b>September 30, 2019</b>					
Expected loss rate					
Gross carrying amount - trade and other receivables	0.00%	0.00%	0.00%	11.33%	
Loss allowance	1,058,113,033	914,060,136	45,931,201	155,372,198	2,173,476,568
				17,601,775	
<b>December 31, 2018</b>					-
Expected loss rate					
Gross carrying amount - trade and other receivables	0.00%	0.00%	0.00%	13.35%	
Loss allowance	910,679,168	192,273,740	54,062,333	131,821,567	1,288,836,808
				17,601,775	

No additional impairment was recognized in relation to the Group's trade and other receivables as the historical loss rates from existing customers are low and deemed insignificant. The Group also considers to the existence of financial liabilities, which these financial assets may be offset against the outstanding trade receivable with the same counterparty. Financial assets past due for more than three months pertain mostly to the trade receivables from PPPI. The management believes that such receivables are not impaired as it may be offset against the Group's outstanding liabilities to PPPI.

The credit risk for security and other deposits is also considered negligible as the Group has ongoing lease agreements with the counterparty and the latter is considered to be with sound financial condition.

Furthermore, the Group's advances to related parties are repayable on demand and the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the related party's ability to repay the advances upon demand at the reporting date taking into consideration historical defaults from the related parties. Management assessed that the outstanding advances from related parties as of September 30, 2019 and December 31, 2018 are recoverable since these the related parties were assessed to have a capacity to pay the advances upon demand and there were no historical defaults. Hence, no impairment is necessary.

### 25.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at September 30, 2019, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 4,923,549,359	P 2,500,245,998	P 9,645,528,588	P 2,950,429,787
Trade and other payables (except for government-related obligations)	13	4,016,744,293	-	-	-
Advances from related parties	19.4	281,979,358	281,979,358	-	-
		<b>P 9,222,273,010</b>	<b>P 2,782,225,356</b>	<b>P 9,645,528,588</b>	<b>P 2,950,429,787</b>

As at December 31, 2018, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 5,673,981,385	P 1,130,501,732	P 9,740,720,792	P 2,408,802,755
Trade and other payables (except for government-related obligations)	13	3,146,020,255	-	-	-
Advances from related parties	19.4	18,049,334	18,049,333	-	-
		<b>P 8,838,050,974</b>	<b>P 1,148,551,065</b>	<b>P 9,740,720,792</b>	<b>P 2,408,802,755</b>

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 26. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 26.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

		September 30, 2019		December 31, 2018	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Assets:</b>					
<i>Loans and Receivables:</i>					
Cash and cash equivalents	4	P 545,927,158	P 545,927,158	P 443,495,969	P 443,495,969
Trade and other receivables - net	5	2,303,095,797	2,303,095,797	1,369,911,121	1,369,911,121
Restricted cash	8, 11	20,743,270	20,743,270	1,637,081	1,637,081
Security deposits	8, 11	81,984,966	81,984,966	40,529,028	40,529,028
Advances to related parties	19.4	831,094,995	831,094,995	3,127,555,209	3,127,555,209
<i>Financial Assets at FVTPL —</i>					
Equity securities	6	3,947,736	3,947,736	3,947,736	3,947,736
		<u>P 3,786,793,922</u>	<u>P 3,786,793,922</u>	<u>P 4,987,076,144</u>	<u>P 4,987,076,144</u>
<b>Financial Liabilities —</b>					
<i>At amortized cost:</i>					
Trade and other payables	13	P 4,016,744,293	P 4,016,744,293	P 3,146,020,255	P 3,146,020,255
Interest-bearing loans	12	15,984,465,165	15,984,465,165	15,619,861,853	15,619,861,853
Advances from related parties	19.4	563,958,716	563,958,716	36,098,668	36,098,668
		<u>P 20,565,168,174</u>	<u>P 20,565,168,174</u>	<u>P 18,801,980,776</u>	<u>P 18,801,980,776</u>

See Notes 2.5 and 2.10 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 26.

### 26.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2019 and 2018 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by Udenma. In addition, the Group's outstanding interest-bearing loans from certain banks can be potentially set-off to the extent of the Group's outstanding cash deposited in the same banks.

The outstanding balances of trade and other receivables and cash advances granted to related parties totaling P1,087.6 million and P3,352.0 million as of September 30, 2019 and December 31, 2018, respectively, may be offset against the outstanding balances of trade and other payables and cash advances obtained from related parties totaling P2,475.4 million and P604.5 million as of September 30, 2019 and December 31, 2018, respectively.

## 27. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### 27.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### ***27.2 Financial Instruments Measured at Fair Value***

The Group's financial instruments measured at fair value includes the Financial assets at FVTPL amounting to P3.9 million and is presented in the consolidated statements of financial position on a recurring basis.

These are included in Level 1 as the prices of the shares were valued based on their market prices quoted in the PSE at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of September 30, 2019 and December 31, 2018.

### ***27.3 Financial Instruments Measured at Amortized Cost but for which Fair Value is Disclosed***

The tables in the succeeding page summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of September 30, 2019 and December 31, 2018, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

		September 30, 2019			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
<i>Loans and Receivables:</i>					
Cash and cash equivalents	P	545,927,158	P -	P -	P 545,927,158
Trade and other receivables - net		-	-	2,303,095,797	2,303,095,797
Restricted cash		20,743,270	-	-	20,743,270
Security deposits		-	-	81,984,966	81,984,966
Advances to related parties		-	-	831,094,995	831,094,995
	<b>P</b>	<b>566,670,428</b>	<b>P -</b>	<b>P 3,216,175,758</b>	<b>P 3,782,846,186</b>
<b>Financial Liabilities —</b>					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 4,016,744,293	P 4,016,744,293
Interest-bearing loans		-	-	15,984,465,165	15,984,465,165
Advances from related parties		-	-	563,958,716	563,958,716
	<b>P</b>	<b>-</b>	<b>P -</b>	<b>P 20,565,168,174</b>	<b>P 20,565,168,174</b>
		December 31, 2018			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
<i>Loans and Receivables:</i>					
Cash and cash equivalents	P	1,441,704,190	P -	P -	P 1,441,704,190
Trade and other receivables - net		-	-	857,419,350	857,419,350
Restricted cash		31,043,312	-	-	31,043,312
Security deposits		-	-	17,852,950	17,852,950
Advances to related parties		-	-	2,488,434,793	2,488,434,793
	<b>P</b>	<b>1,472,747,502</b>	<b>P -</b>	<b>P 3,363,707,093</b>	<b>P 4,836,454,595</b>
<b>Financial Liabilities:</b>					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 3,146,020,255	P 3,146,020,255
Interest-bearing loans		-	-	10,332,160,635	10,332,160,635
Advances from related parties		-	-	1,040,772,152	1,040,772,152
	<b>P</b>	<b>-</b>	<b>P -</b>	<b>P 14,518,953,042</b>	<b>P 14,518,953,042</b>

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

## 27.4 Fair Value Measurements of Non-financial Assets

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 9). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 3 fair value of vessels was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2019 and 2018.

## 28. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<b>September 30, 2019</b>	December 31, 2018
Total liabilities	<b>P 20,978,045,648</b>	P19,366,302,118
Total equity	<b><u>12,970,256,002</u></b>	<u>12,924,953,205</u>
Debt-to-equity ratio	<b><u>1.62 : 1.00</u></b>	<u>1.50 : 1.00</u>

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not more than 3.00:1.00. This is in line with the Group's bank covenants related to its borrowings.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

## 29. EVENTS AFTER THE END OF THE REPORTING PERIOD

On October 4, 2019, the Company subscribed to 41.67% ownership interest in Dito Holdings Corporation (DHC). DHC is primarily engaged to acquire, hold, sell, exchange, deal and invest in real or personal property of all kinds, including stocks, bonds, or securities of any public or private corporation, including any government or any subdivision thereof, in the same manner and to the extent as a natural person might, could, or would do, to exercise all the rights, powers, and privileges of ownership, including the right to vote therein, or consent in respect thereof, for any and all purposes, without however managing securities, portfolio, or funds of the managed entity or firm, nor shall the corporation act as a stock dealer in securities or broker, nor engage in investment solicitation nor take investments from the public sector.

On October 9, 2019, the Company acquired all of the outstanding shares of The Supercat Fast Ferry Corporation (SFFC) from 2Go. SFFC is primarily engaged to own and operate mixed passenger/cargo vessels for domestic trade, to charter in and charter out any such vessels and to provide complete marine services, as principal or agent, to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic marine and maritime business.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Comparable discussion on Material Changes in Results of Operations for the Nine Months Ended September 30, 2019 vs. September 30, 2018.

<i>Amounts in millions</i>		Sep 2019		Sep 2018	% Change
Revenues	P	5,154	P	3,695	40%
Cost of sales and services		3,433		2,427	41%
Gros Profit		1,721		1,268	36%
Other Operating Expenses		760		591	29%
Operating Profit		961		677	42%
Other Charges - Net		1,035		594	74%
Profit (Loss) Before Tax	(	73	)	84	-187%
Tax Expense (Income)	(	93	)	41	-329%
<b>Net Profit</b>	P	20	P	43	-54%
Add Back:					
Tax Expense (Income)	(	93	)	41	-329%
Interest Expense		843		456	85%
Depreciation and Amortization		915		624	47%
Share in Net Loss (Income) of an Associate		385		198	95%
Less: Interest Income	(	1	)	1	-54%
<b>EBITDA</b>	P	2,069	P	1,359	52%

Chelsea Logistics and Infrastructure Holdings Corp. and subsidiaries (CLC or the Group) posted a Net Profit of ₱20 million for the nine (9) months ended September 30, 2019. This represents 54% decline compared to the Net Profit of ₱43 million during the same period in 2018.

On other hand, EBITDA grew by 52% from ₱1,359 million in 2018 to ₱2,069 million in 2019 as a result of higher depreciation and interest incurred from the operations of seven new vessels, which commenced operations in various dates from fourth quarter 2018 to third quarter 2019.

### Revenues

Presented below is the comparison of the Group's consolidated revenues for the nine (9) months ended September 30, 2019 as compared to the consolidated revenues for the same period in 2018.

<i>Amounts in millions</i>		Sep 2019		Sep 2018	% Change
Freight	P	1,692	P	1,260	34%
Tankering		1,583		1,211	31%
Passage		1,095		727	51%
Logistics		328		191	72%
Tugboat fees		253		222	14%
Others		204		85	139%
<b>Total Revenues</b>	P	5,154	P	3,695	40%

Based on the comparison of the actual performance during the nine (9) months of 2019 against the same period in 2018, the Group's revenues increased by ₱1,459 million or 40% to ₱5.15 billion from ₱3.70 billion. Each business segment of the Group showed robust growth. Tankering revenues (consisting of charter fees and standby charges) increased from ₱1,211 million to ₱1,583 million as a result of the operations of MT Chelsea Providence, the Group's medium-range tanker and the largest registered tanker in the Philippines. In addition, the utilization of the Group's other tankers also



increased with the higher volume of petroleum products shipped for the period. Similarly, revenues from freight segment grew by 34% from ₱1,260 million for the nine (9) months of 2018 to ₱1,692 million during the same period in 2019, while passage revenues rose by 51% from ₱727 million in 2018 to ₱1,095 million in 2019. The growth in the freight and passage revenues can be attributed to the operations of MV Stella Del Mar, MV Salve Regina, MV Trans-Asia 19, MV Trans-Asia 18 and MV Stella Maris plying the routes of Roxas-Caticlan, Batangas-Caticlan, Cebu-Tagbilaran-Cagayan de Oro, Cebu-Cagayan De Oro and Cebu-Surigao, respectively. In addition, the re-routing of MV Starlite Archer and MV Starlite Saturn from short-haul trips to Batangas-Caticlan and Batangas-Culasi via Sibuyan also contributed to better revenue performance for the passage and freight business.

Tugboat fees slightly increased by 14% for the nine (9) months ended September 30, 2019 from ₱222 million to ₱253 million as a result of the Group's expanded tugboat operations in Batangas, Davao, and recently, in Cagayan de Oro.

The Group's logistics business, which currently accounts for 6% of the total consolidated revenues, posted the biggest growth of 72% from 2018's ₱191 million to ₱328 million for the nine (9) months of 2019. This was a result of the Group's continued expansion program of increasing its warehouse capacity and trucking fleet. This segment is expected to further improve once the Group's warehouse complex located on a 2.5-hectare property in Brgy. Ligid-Tipas, Taguig City commences commercial operations in 2020.

### Costs and Expenses

A breakdown of the Group's consolidated Costs of Sales and Services for the nine (9) months ended September 30, 2019 as compared to details of direct costs for the same period in 2018 is shown below.

<i>Amounts in millions</i>		Sep 2019		Sep 2018	% Change
Bunkering	P	1,153	P	735	57%
Depreciation and amortization		876		600	46%
Salaries and employee benefits		491		388	27%
Outside services		185		63	193%
Repairs and maintenance		144		69	107%
Insurance		123		95	29%
Port expenses		112		108	3%
Charter hire fees		70		121	-42%
Supplies		58		64	-10%
Cost of inventories sold		47		7	600%
Taxes and licenses		24		23	4%
Rentals		21		38	-44%
Utilities and communication		11		13	-12%
Transportation and travel		9		14	-33%
Professional fees		0		2	-84%
Miscellaneous		111		88	26%
<b>Total Costs of Sales and Services</b>	<b>P</b>	<b>3,433</b>	<b>P</b>	<b>2,427</b>	<b>41%</b>

As can be seen from the preceding table, the significant drivers to the increase in Costs of Sales and Services were the bunkering costs, depreciation and amortization, crew salaries and employee benefits, repairs and maintenance and insurance, which grew by ₱418 million, ₱275 million, ₱103 million, ₱74 million and ₱27 million, respectively, as a result of additional vessel deployments for the period. In addition, outside services increased by ₱122 million as a result of the significant increase in volume of delivery services for the Group's logistics business.

On the other hand, the details of Other Operating Expenses for the nine (9) months ended September 30, 2019 as compared to the consolidated Other Operating Expenses for the same period in 2018 are as follows:

<i>Amounts in millions</i>		Sep 2019		Sep 2018	% Change
Salaries and employee benefits	P	316	P	226	40%
Handling expense		118		33	259%
Taxes and licenses		79		119	-33%
Depreciation and amortization		39		23	67%
Outside services		37		32	16%
Rentals		32		30	4%
Professional fees		24		16	45%
Transportation and travel		22		20	9%
Utilities and communication		19		15	30%
Repairs and maintenance		11		13	-14%
Supplies		10		10	-3%
Insurance		7		3	138%
Commission		5		9	-42%
Representation and entertainment		4		12	-67%
Miscellaneous		38		30	24%
<b>Total Other Operating Expenses</b>	<b>P</b>	<b>760</b>	<b>P</b>	<b>591</b>	<b>29%</b>

Other Operating Expenses increased by 29% from ₱591 million in 2018 to ₱760 million in 2019 due to increases in salaries and employee benefits and handling expenses resulting from the Group's continued expansion. On the other hand, taxes and licenses declined by ₱40 million for the nine (9) months of 2019. A one-time payment of documentary stamp taxes for the conversion of certain loans and filing fees related to incorporation of new companies were incurred in 2018.

### Net Profit

The Group's Net Profit for the nine (9) months ended September 30, 2019 amounted to ₱20 million as compared to ₱43 million for the same period in 2018. The decline in the Group Net Profit was primarily attributable to higher finance costs and depreciation and amortization due to its expansion program.

Finance costs amounting to ₱856 million pertain to interest expenses related to new loans obtained to finance vessels, which were acquired during the second half of 2018 and first half of 2019.

## Financial Condition

(September 30, 2019 vs. December 31, 2018)

<b>Amounts in millions</b>		<b>Sep-19</b>		<b>Dec-18</b>	<b>% Change</b>
Current Assets	P	<b>5,137</b>	P	6,494	-21%
Non-Current Assets		<b>28,811</b>		25,797	12%
<b>Total Assets</b>	<b>P</b>	<b>33,948</b>	<b>P</b>	<b>32,291</b>	<b>5%</b>
Current Liabilities	P	<b>9,816</b>	P	10,126	-3%
Non-Current Liabilities		<b>11,162</b>		9,241	21%
<b>Total Liabilities</b>	<b>P</b>	<b>20,978</b>	<b>P</b>	<b>19,366</b>	<b>8%</b>
<b>Total Equity</b>	<b>P</b>	<b>12,970</b>	<b>P</b>	<b>12,925</b>	<b>0%</b>

Total resources of the Group grew to ₱33,948 million as of September 30, 2019 from ₱32,291 million as of December 31, 2018. The increase was brought about by the Group's continued expansion programs in the shipping and logistics business and through the subscription of shares in DITO Telecommunity Corporation (DITO).

Cash and cash equivalents increased by 23% from ₱443 million as of December 31, 2018 to ₱546 million as of September 30, 2019 as a result of availment of new loans to finance the continued expansion programs of the Group.

Trade and other receivables increased by 62% from ₱1,430 million as of December 31, 2018 to ₱2,310 million as of September 30, 2019 primarily due to timing of collections from customers.

The decline in inventories of approximately ₱35 million was due to consumption of fuel and lubricants and the usage of spare parts inventories during the drydocking of certain vessels.

Advances to related parties decreased significantly from ₱3,128 million as of December 31, 2018 to ₱831 million as of September 30, 2019 as a result of collections of advances to related parties for working capital requirements and other purposes. The remaining advances are expected to be settled in cash or through offsetting arrangements with the related parties.

Property and equipment grew from ₱17,303 million as of December 31, 2018 to ₱20,278 million as a result of additional vessel acquisitions and other capital expenditures during the nine (9) months of 2019 as part of the Group's continued expansion programs.

Investments in associates and a joint venture increased significantly from ₱1,821 million as of December 31, 2018 to ₱1,986 million as of September 30, 2019 resulting from subscription of shares of DITO, additional investment in Meridian. These were partially offset by the recognition of the Group's share in net losses of 2Go Group, Inc. and DITO for the current period.

Trade and other payables increased by ₱755 million from ₱3,511 million as of December 31, 2018 to ₱4,266 million as of September 30, 2019. The increase in Trade and other payables was primarily due to timing of payment of trade payables.

Interest-bearing loans slightly increased by 2% from ₱15,619 million as of December 31, 2018 to ₱15,984 million as of September 30, 2019 resulting from the availment of new loans related to the acquisition of vessels in relation to the Group's continued expansion programs.

The decline in Income Tax Payable was primarily due to the tax payments made in April 2019.

The decrease in deferred tax liabilities by 14% was mainly due to the tax effect of utilization of prior years' NOLCO but partially offset by additional revaluation increment related to the appraisal of vessels after drydocking.

The increase in equity, primarily retained earnings, was due to the results of the Company's financial performance for the nine (9) months ended 30 September 2019.

#### **Key Performance Indicators and Relevant Ratios**

The Group's key performance indicators and relevant ratios and how they are computed are listed below.

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Current ratio	0.52	0.64
Debt-to-equity ratio	1.62	1.50
Book value per share	7.02	7.00
EBITDA margin	40%	37%
Return on equity	0.16%	-4.22%
Earnings per share	0.011	-0.30

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 (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

#### **Known Trends or Demands, Commitments, Events or Uncertainties that will impact Liquidity**

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will materially affect its liquidity.

#### **Events that will trigger Direct or Contingent Financial Obligation that is material to the Company, including any default or acceleration of an obligation**

The Company is not aware of other events that will materially trigger a direct or contingent financial obligation.

#### **Material Off-Balance Sheet Transactions, Arrangements, Obligations (including contingent obligations), and Other Relationships of the Company with Unconsolidated Entities or Other Persons Created during the Reporting Period**

The Company has no material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period that is not included in the Financial Statements.

#### **Material Commitments for Capital Expenditures, the General Purpose of the Commitment and Expected Sources of Funds**

As discussed in Note 22.8 to the financial statements, the Company signed two shipbuilding agreements for the delivery of two (2) 98-meter bed/seat Ro-Ro type passenger ferry ships presently identified as Builder's Nos. S-1190 and S-1191 for delivery in October 2019 and April 2020, respectively.

**Known Trends, Events or Uncertainties that will impact Sales / Revenues / Income from Continuing Operations**

The Company is not aware of any known trends, events or uncertainties that will impact its sales and/or income from continuing operations.

**Significant Elements of Income or Loss that Did Not Arise from Continuing Operations**

The Company is not aware of any element of income or loss that did not arise from continuing operations.

**Seasonal Aspects that had Material Effect on the Financial Condition or Results of Operations**

The RoPax segment transports passengers and cargoes within Philippine territorial waters and/or on the high seas. Due to the seasonal nature of this segment, higher passage revenues and operating profits are usually experienced in the summer months of the year (March, April and May), school holidays (October and November) and Christmas holidays (December and January) rather than in the other months of the year. Freight revenues, on the other hand, are higher at the last quarter of the year rather than in the early months.

The seasons of the year have no or little effect on the operations of the tanker and tugboat segments.

**PART II OTHER INFORMATION**

1. On 5 July 2019, the Company launched the 98-meter "M/V Trans-Asia 20" Bed/Seat Ro-Ro Type Passenger Ferry at a ceremony held at Kegoya Dock Co., Ltd.'s Japan shipyard. The ship M/V Trans-Asia 20 (Hull No. S-1190) is scheduled to be delivered in October 2019. This vessel which can carry a total of 740 passengers, 22 buses, and 6 trucks, will provide better service to Filipinos which is a principal objective of Chelsea. This is the Chelsea Group's 10<sup>th</sup> brand new RoPax made in Japan. Subsequently, on 30 October 2019, the Company accepted protocol of delivery of said vessel.
2. On 26 July 2019, MV Trans-Asia 18 had its maiden voyage plying the Cebu-Cagayan De Oro route. The next day, MV Stella Maris also had its maiden voyage to Surigao from Cebu City.
3. On 8 August 2019, the Board of Directors of the Company, upon recommendation by the Management Team, approved the proposed Retirement Plan for all regular employees of the Company and its designated subsidiaries. The objective of the Plan is to provide a fund for the payment of retirement, disability, death or separation benefits to eligible employees of the Company and their beneficiaries.

4. On 19 August 2019, the Company was conferred the Original Proponent Status (OPS) for the Davao Sasa Port Modernization Project by the Philippine Ports Authority (PPA). The grant of the OPS was contained in the Certificate of Successful Negotiation following the successful negotiation on the scope and details of the project in accordance with the Revised Guidelines and Procedures for Entering into Joint Venture Agreements between Government and Private Entities (2013 NEDA JV Guidelines).
5. On 9 October 2019, the Company took over management of The Supercat Fast Ferry Corporation (SuperCat). SuperCat operates 11 fastcrafts plying the routes of Cebu-Ormoc, CebuTabilaran, Batangas-Calapan, and Bacolod-Iloilo.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP.**

By: 

**DENNIS A. UY**

*Chairman of the Board*

  
**CHRYSS ALFONSUS V. DAMUY**  
*President and CEO*

  
**IGNACIA S. BRAGA IV**  
*Chief Financial Officer*

Signed this 8<sup>th</sup> day of November 2019