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Report of Independent Auditors

The Board of Directors and Stockholders
Chelsea Logistics and Infrastructure Holdings Corp. and Subsidiaries
(Formerly Chelsea Logistics and Holdings Corp.)
(A Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Bo. Pampanga, Davao City

Opinion

We have audited the consolidated financial statements of Chelsea Logistics and Infrastructure Holdings Corp. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and the notes to consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Revenue Recognition

Description of the Matter

We identified revenue recognition as a key audit matter because the amount is significant and it involves voluminous transactions at any given period of time, requires proper observation of cut-off procedures and testing of validity of transactions, and is one of the Group's key performance indicators. Revenues, which is comprised significantly of freight revenues, charter fees, passage fees, rendering of services and tugboat fees, amounted to P7.0 billion for the year ended December 31, 2019.

The Group's disclosures on its revenue recognition policy and disaggregation of revenues are fully disclosed in Notes 2 and 24, respectively, to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

- Understanding the policies and procedures applied to revenue recognition, as well as compliance therewith, and assessing the design effectiveness of internal controls related to revenue recognition processes employed by the Group;

- Evaluating the appropriateness of the Group's revenue recognition in relation to its compliance with the requirements of PFRS 15, *Revenue from Contracts with Customers*, through testing charter agreements, billing invoices, vessel fixture notes, bills of lading and other related supporting documents, on a sample basis, to determine whether revenue transactions throughout the current period are properly recognized at the time (i.e., either at a point in time or over time);

- Confirming trade receivables, on a sample basis, as of the end of the reporting period from rendering of services; and, performing alternative procedures such as, but not limited to, examining cash receipts, or billing invoices and vessel fixture notes;

- Testing billing invoices and vessel fixture notes immediately prior and subsequent to the current reporting period to determine whether the related revenue transactions are recognized in the proper reporting period; and,

- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of revenues per vessel, per customer, and per service line, verifying validity of the underlying data used in the analyses, and following up variances from our expectations.

(b) Impairment of Goodwill

Description of the Matter

Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Group is required to annually test the amount of its goodwill for impairment. As of December 31, 2019, the Group's goodwill amounted to P5.7 billion. We considered the impairment of goodwill as a key audit matter because the amount of goodwill is material to the consolidated financial statements. In addition, management's assessment process involves judgements, and significant assumptions about the future results of the business, and the discount rate and cash flow projections used in determining the cash-generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill is more fully described in Note 2 to the consolidated financial statements, while their corresponding carrying amounts are disclosed in Note 23 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to goodwill included, among others, the following:

- Involving our own valuation specialist to assist in evaluating the reasonableness of the assumptions and methodology used by management and their external valuation expert in determining the cash-generating units attributable to the goodwill, which include the discount rate and the cash flow projections, by comparing them to external and historical data, and, performing independent sensitivity analysis of the projections and discount rate to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash-generating units to exceed the recoverable amount;

- Assessing the professional competence, reputation, experience and objectivity of the Group's external valuation expert as evidenced by certification, license or recognition by the appropriate professional organizations; and,

- Comparing the net present value of excess earnings attributable to the cash-generating units over which the goodwill was allocated.

(c) Adoption of PFRS 16, Leases

Description of the Matter

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, which replaced PAS 17, *Leases*, and the related interpretations to PAS 17. The adoption of this new standard, which primarily affected the Group's accounting for leases as a lessee by recognizing "right-of-use" assets and lease liabilities "on-balance sheet", is considered significant due to the complexities of the accounting requirements and the significant judgements involved in determining the assumptions to be used in applying the new standard.

Further, the recognition of right-of-use assets and lease liabilities, which are particularly covered by the provisions of PFRS 16, both amounted to P1.2 billion as at December 31, 2019 and is considered significant in amount relative to the Group's consolidated total assets and consolidated total liabilities.

The impact of the adoption of PFRS 16, and the related changes in accounting policies and bases of judgments and estimates, are disclosed in Notes 2 and 3 to the consolidated financial statements, while the carrying amounts of right-of-use assets, included as part of Property and Equipment, and lease liabilities, included as part of Interest-bearing Loans and Borrowings, as at December 31, 2019 are disclosed in Notes 9 and 12 to the consolidated financial statements, respectively. The new disclosure requirements of PFRS 16 are also discussed in Note 12 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adoption of PFRS 16 included, among others, the following:

- Understanding the policies and procedures applied by the Group in identifying leases that qualify under PFRS 16, and leases that qualify under the recognition exemptions on short-term leases and low-value leases, as well as compliance therewith;

- Assessing the completeness of the lease contracts and verifying the accuracy of the lease information provided, considering the reconciliation of the Group's operating lease commitments;

- Evaluating the appropriateness of adjustments as a result of the adoption of PFRS 16 on the recognition and measurement of right-of-use assets and lease liabilities and determining the adequacy of related financial statement disclosures, including changes in accounting policies and bases of judgments and estimates; and,

- Evaluating the reasonableness of the inputs and assumptions used by the management in determining the lease term and incremental borrowing rate used, such as but not limited to, renewal and termination options, contractual terms of the lease, nature and quality of security, if any, and the economic environment in which the transaction occurs.

(d) Fair Value of Vessels and Vessel Equipment under Property and Equipment

Description of the Matter

The carrying amount of the Group's vessels and vessel equipment under the Property and Equipment account amounted to P18.7 billion. As allowed under PAS 16, *Property, Plant and Equipment*, the Group measures its vessels and vessel equipment based on a revalued amount, which represent fair market values at the date of the revaluation. Management determined the fair value based on the valuation made by independent appraisers every after drydocking of vessels, which is performed once every two years.

The fair valuation of the Group's vessels was significant in our audit as the amount is material to the consolidated financial statements and the determination of fair values includes significant assumptions and estimates.

The methods and assumptions used in determining the fair value of vessels is more fully described in Notes 3 and 27 to the consolidated financial statements while the revalued amount of vessels and vessel equipment as at December 31, 2019 is disclosed in Note 9.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to valuation of vessels and vessel equipment included:

- Determining whether the independent appraisers engaged by the Group has the necessary professional competency, reputation, experience and objectivity;

- Involving an independent expert to assist us in evaluating the results of the work performed by the Group's independent appraisers by understanding the methodology, process and data used in determining the fair value of vessels and vessel equipment; and,

- Assessing the appropriateness and reasonableness of bases used in the valuation such as the vessel's certificates, operating condition of the vessel equipment, main engine, and other auxiliary machineries and equipment.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission Form 17-A, which we obtained prior to the date of the auditors' report, and the Group's SEC Form 20-IS (Definitive Information Statement) and Annual Report, which are expected to be made available to us after that date, for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audits resulting in this independent auditors' report is Ramilito L. Nañola.

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 8116551, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-4 (until Sept. 16, 2022)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-19-2018 (until Jan. 25, 2021)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 12, 2020

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

	Notes		2019		2018
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	4	P	**375,228,505**	P	443,495,969
Trade and other receivables - net	5		**2,225,735,811**		1,430,045,495
Financial assets at fair value through profit or loss	6		**3,947,736**		3,947,736
Inventories	7		**546,803,953**		525,904,778
Advances to related parties	19		**814,252,135**		3,127,555,209
Other current assets	8		**1,088,657,865**		963,520,687
Total Current Assets			**5,054,626,005**		6,494,469,874
NON-CURRENT ASSETS					
Property and equipment - net	9		**22,915,005,555**		17,303,897,157
Investments in associates and a joint venture	10		**6,416,269,582**		1,821,168,833
Goodwill	23		**5,713,122,608**		5,641,434,544
Post-employment benefit asset	16		**7,673,898**		12,300,710
Deferred tax assets - net	18		**375,161,580**		283,345,565
Other non-current assets - net	11		**522,338,281**		734,638,640
Total Non-current Assets			**35,949,571,504**		25,796,785,449
TOTAL ASSETS		P	**41,004,197,509**	P	32,291,255,323

	Notes	2019	2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	13	P 10,759,925,409	P 3,496,662,037
Interest-bearing loans and borrowings	12	6,124,500,567	6,555,553,721
Advances from related parties	19	1,114,816,666	36,098,668
Advances from customers	2	55,788,185	14,484,333
Income tax payable		22,256,833	22,769,050
Total Current Liabilities		18,077,287,660	10,125,567,809
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	12	10,182,620,625	9,064,308,132
Post-employment benefit obligation	16	56,528,581	35,162,375
Deferred tax liabilities - net	18	163,931,353	82,471,428
Other non-current liabilities		70,283,902	58,792,374
Total Non-current Liabilities		10,473,364,461	9,240,734,309
Total Liabilities		28,550,652,121	19,366,302,118
EQUITY			
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	1,777,036,051	1,497,869,655
Other reserves	20	(1,058,033,280)	(1,058,033,280)
Retained earnings (Deficit)		(265,805,155)	484,769,058
		12,273,545,388	12,744,953,205
Non-controlling interest	20	180,000,000	180,000,000
Total Equity		12,453,545,388	12,924,953,205
TOTAL LIABILITIES AND EQUITY		P 41,004,197,509	P 32,291,255,323

See Notes to 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 YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
REVENUES	24			
Freight		P 2,440,858,768	P 1,708,880,761	P 1,387,445,706
Charter fees	19	1,889,509,748	1,721,642,369	1,194,216,186
Passage		1,423,269,213	969,290,258	773,491,556
Rendering of services		660,478,934	377,620,815	243,826,107
Tugboat fees		338,321,437	333,938,349	261,321,170
Sale of goods		127,599,231	36,643,669	25,815,744
Standby charges	19	93,507,012	24,015,822	23,050,935
		6,973,544,343	5,172,032,043	3,909,167,404
COST OF SALES AND SERVICES	14	5,422,776,475	3,754,741,525	2,862,147,364
GROSS PROFIT		1,550,767,868	1,417,290,518	1,047,020,040
OTHER OPERATING EXPENSES	15	996,171,610	900,510,203	529,672,911
OPERATING PROFIT		554,596,258	516,780,315	517,347,129
OTHER INCOME (CHARGES) - Net				
Finance costs	17	(1,226,043,366)	(835,388,144)	(516,979,233)
Share in net loss of an associate	10	(483,155,985)	(453,048,188)	(1,962,214)
Finance income	17	24,756,404	6,553,683	10,401,760
Gain on bargain purchase	23	-	4,370,340	-
Other income	17	157,346,787	138,602,416	143,921,531
		(1,527,096,160)	(1,138,909,893)	(364,618,156)
PROFIT (LOSS) BEFORE PRE-ACQUISITION INCOME AND TAX		(972,499,902)	(622,129,578)	152,728,973
PRE-ACQUISITION INCOME		-	-	(105,375,776)
PROFIT (LOSS) BEFORE TAX		(972,499,902)	(622,129,578)	47,353,197
TAX INCOME	18	(140,738,902)	(71,596,622)	(113,866,526)
NET PROFIT (LOSS)		(P 831,761,000)	(P 550,532,956)	P 161,219,723
Earnings (Loss) Per Share (Basic and Diluted)	21	(P 0.457)	(P 0.302)	P 0.123

See Notes to Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Holdings Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
NET PROFIT (LOSS)		(P 831,761,000)	(P 550,532,956)	P 161,219,723
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Revaluation of vessels	9	632,951,901	167,829,312	67,317,920
Share in the remeasurement losses on post-employment benefit obligation of an associate	10	(26,478,210)	-	-
Remeasurement of post-employment benefit obligation	16	(9,799,526)	27,358,603	(1,317,864)
Share in the revaluation of vessels of an associate		-	-	108,049,607
Tax expense	18	(159,150,294)	(58,556,375)	(3,154,527)
		437,523,871	136,631,540	170,895,136
Items that will be reclassified subsequently to profit or loss:				
Currency exchange differences on translating financial statements of foreign operations	2	(715,045)	1,466,209	(223,517)
Fair value loss on disposed available-for-sale financial assets reclassified to profit or loss		-	-	(49,607)
Tax income		-	-	14,882
		(715,045)	1,466,209	(258,242)
Other Comprehensive Income - net of tax		436,808,826	138,097,749	170,636,894
TOTAL COMPREHENSIVE INCOME (LOSS) BEFORE PRE-ACQUSITION OTHER COMPREHENSIVE INCOME		(394,952,174)	(412,435,207)	331,856,617
PRE-ACQUISITION OTHER COMPREHENSIVE INCOME		-	-	55,484,964
TOTAL COMPREHENSIVE INCOME (LOSS)		(P 394,952,174)	(P 412,435,207)	P 276,371,653

See Notes to 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 YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

		Attributable to Owners of the Parent Company							
	Notes	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings (Deficit)	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2019									
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	P 180,000,000	P 12,924,953,205
Restatement	2	-	-	-	-	(16,189,848)	(16,189,848)	-	(16,189,848)
As restated		1,821,977,615	9,998,370,157	1,497,869,655	(1,058,033,280)	468,579,210	12,728,763,357	180,000,000	12,908,763,357
Total comprehensive income (loss) for the year		-	-	436,808,826	-	(831,761,000)	(394,952,174)	-	(394,952,174)
Share in stock issuance costs of an associate	10	-	-	-	-	(60,265,795)	(60,265,795)	-	(60,265,795)
Transfer of revaluation reserves through depreciation, net of tax	20	-	-	(157,642,430)	-	157,642,430	-	-	-
Balance at December 31, 2019	20	P 1,821,977,615	P 9,998,370,157	P 1,777,036,051	(P 1,058,033,280)	(P 265,805,155)	P 12,273,545,388	P 180,000,000	P 12,453,545,388
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
Additions during the year	20	-	-	-	-	-	-	180,000,000	180,000,000
Total comprehensive income (loss) for the year		-	-	138,097,749	-	(550,532,956)	(412,435,207)	-	(412,435,207)
Transfer of revaluation reserves through depreciation, net of tax	20	-	-	(70,145,098)	-	70,145,098	-	-	-
Balance at December 31, 2018	20	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	P 180,000,000	P 12,924,953,205
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 year	20	1,321,977,615	9,998,370,157	-	-	-	11,320,347,772	-	11,320,347,772
Total comprehensive income for the year		-	-	115,151,930	-	161,219,723	276,371,653	-	276,371,653
Transfer of revaluation reserves through depreciation, net of tax		-	-	(56,233,193)	-	56,233,193	-	-	-
Balance at December 31, 2017		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

See Notes to 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 YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		(P 972,499,902)	(P 622,129,578)	P 47,353,197
Adjustments for:				
Depreciation and amortization	9, 11	1,272,582,798	868,058,074	818,757,177
Interest expense	17	1,223,993,922	776,933,861	507,987,399
Share in net loss of an associate	10	483,155,985	453,048,188	1,962,214
Gain on sale of property and equipment	9	(30,909,664)	(1,326,971)	-
Unrealized foreign currency exchange losses (gains) - net	17	(9,240,000)	(23,242,597)	(5,526,564)
Impairment losses on property and equipment	9	7,394,742	-	-
Interest income	17	(3,209,084)	(3,626,087)	(4,875,196)
Reversal of impairment losses on property and equipment	9	(2,214,620)	-	-
Gain on bargain purchase	23	-	(4,370,340)	-
Gain on sale of available-for-sale (AFS) financial assets		-	-	(743,911)
Gain on sale of financial assets at fair value through profit or loss (FVTPL)		-	-	(87,784)
Fair value gain on disposed AFS reclassified to profit or loss		-	-	(49,607)
Operating profit before working capital changes		1,969,054,177	1,443,344,550	1,364,776,926
Decrease (increase) in trade and other receivables		(789,456,419)	(526,784,036)	976,280,103
Increase in inventories		(10,503,833)	(337,889,509)	(105,989,357)
Decrease (increase) in advances to related parties		2,313,303,074	(639,120,416)	(2,293,988,715)
Decrease (increase) in other current assets		(104,009,655)	(605,136,157)	73,902,652
Decrease (increase) in post-employment benefit asset		4,626,812	(4,110,656)	(1,998,671)
Decrease (increase) in other non-current assets		(22,918,855)	752,790,446	(1,558,687,549)
Increase (decrease) in trade and other payables		6,401,485,289	1,950,778,836	(538,558,532)
Increase in post-employment benefit obligation		11,566,680	25,932,098	5,216,732
Increase (decrease) in other non-current liabilities		11,491,528	(7,454,424)	1,853,715
Cash generated from (used in) operations		9,825,942,650	2,052,350,732	(2,077,192,696)
Interest received		3,209,084	3,626,087	4,875,196
Cash paid for income taxes		(23,364,384)	(63,428,617)	(76,686,630)
Net Cash From (Used in) Operating Activities		9,805,787,350	1,992,548,202	(2,149,004,131)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	9	(3,812,414,640)	(5,789,604,581)	(1,677,390,638)
Acquisitions of subsidiaries and additional investments in associates and a joint venture	10, 23	(5,165,000,739)	(110,089,751)	(2,290,863,390)
Proceeds from disposal of property and equipment	9	64,887,231	201,169,131	7,175,264
Proceeds from disposal of financial assets at FVTPL		-	-	7,419,684
Proceeds from disposal of AFS financial assets		-	-	3,809,000
Net Cash Used in Investing Activities		(8,912,528,148)	(5,698,525,201)	(3,949,850,080)
Balance carried forward		P 893,259,202	(P 3,705,976,999)	(P 6,098,854,211)

	Notes	2019	2018	2017
Balance brought forward		P 893,259,202	(P 3,705,976,999)	(P 6,098,854,211)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of interest-bearing loans and borrowings	12	(3,307,245,190)	(1,281,746,979)	(2,151,099,154)
Proceeds from interest-bearing loans and borrowings	12	2,393,163,353	5,698,373,875	2,588,916,550
Interest paid	17	(1,166,580,151)	(719,520,091)	(320,911,526)
Proceeds from advances from related parties	19	1,113,921,827	35,203,829	1,438,012,897
Repayments of advances from related parties	19	(35,203,829)	(1,039,877,313)	(533,000,000)
Proceeds from issuance of shares of stock		-	-	5,272,347,772
Collection of subscription receivable	20	-	-	350,000,000
Additional deposits for future stock subscriptions		-	-	180,000,000
Net Cash From (Used In) Financing Activities		(1,001,943,990)	2,692,433,321	6,824,266,539
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		-	-	27,270,309
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(108,684,788)	(1,013,543,678)	752,682,638
CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARIES	23	40,417,324	15,335,457	180,081,121
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		443,495,969	1,441,704,190	508,940,431
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 375,228,505	P 443,495,969	P 1,441,704,190

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 P21.6 million and P40.2 million, respectively (see Notes 9 and 12).

In 2019, the Group recognized Right-of-use assets and Lease liabilities amounting to P1,190.6 million and P1,234.5 million, respectively, and are presented as part of of Property and Equipment and Interest-bearing Loans and Borrowings in the 2019 consolidated statement of financial position, respectively (see Notes 9 and 12).

In 2019, the Company acquired all of the outstanding shares of The Supercat Fast Ferry Corporation from 2GO Group, Inc. amounting to P650.0 million. The outstanding balance is presented as part of Trade and Other Payables account in the 2019 consolidated statement of financial position (see Notes 13 and 19).

In 2019, the Group reclassified Advances to suppliers under Other Non-current Assets amounting to P293.0 million to Construction in progress under Property and Equipment account (see Notes 9 and 11).

In 2018, the Group acquired certain machinery and equipment amounting to P76.8 million through a sale and leaseback agreement with a local bank (see Note 12).

In 2017, the Company acquired Udenna Investments B. V. (UIBV) from Udenna Corporation (Udenna) through share-for-share swap, where the Company issued 775,384,615 common shares in favor of Udenna, in exchange for shares of UIBV (see Note 10).

See Notes to 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
DECEMBER 31, 2019 AND 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. This was subsequently ratified by the Company's stockholders on March 15, 2019 and approved by the SEC on May 7, 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, Associates and their Operations

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

Company Name	Explanatory Notes	Percentage of Ownership 2019	2018
Subsidiaries through direct interest:			
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 (TSI)	*(f)*	**100%**	-
The Supercat Fast Ferry Corporation (SFFC)	*(g)*	**100%**	-
Subsidiaries through indirect interest:			
Bunkers Manila, Inc. (BMI)[1]	*(h)*	**100%**	100%
Michael, Inc. (MI)[1]	*(i)*	**100%**	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea)[1]	*(j)*	**100%**	100%
Chelsea Ship Management & Marine Services Corp. (CSMMSC)[1]	*(k)*	**100%**	100%
Fortis Tugs Corporation (FTC)[1]	*(l)*	**100%**	100%
Davao Gulf Marine Services, Inc. (DGMSI)[2]	*(l)*	**100%**	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI)[1]	*(m)*	**100%**	100%
Chelsea Dockyard Corporation (CDC)[1]	*(n)*	**100%**	100%
CD Ship Management & Marine Services Corp. (CDSMMSC)[1]	*(o)*	**100%**	100%
Chelsea Shipping and Logistics Singapore Pte. Ltd. (CSLSP)[1]	*(p)*	**100%**	100%
Quality Metals & Shipworks, Inc. (QMSI)[3]	*(q)*	**100%**	100%
Oceanstar Shipping, Inc. (Oceanstar)[3]	*(r)*	**100%**	100%
Dynamic Cuisine, Inc. (DCI)[3]	*(s)*	**100%**	100%
Starsy Shoppe, Inc. (SSI)[3]	*(t)*	**100%**	100%
Star Maritima Port and Allied Services (Star Maritima)[3]	*(u)*	**100%**	100%
Starbites Food Services Corp. (Starbites)[4]	*(v)*	**100%**	100%
Starlite Gallant Ferries, Inc. (SGFI)[4]	*(d)*	**100%**	100%
Starlite Premiere Ferries, Inc. (SPFI)[4]	*(d)*	**100%**	100%
Big Hub Transport and Logistics Corp. (Big Hub)[3]	*(w)*	**100%**	100%

Company Name	Explanatory Notes	Percentage of Ownership 2019	2018
Associates:			
KGLI-NM Holdings, Inc. (KGLI-NM) Preferred C shares	*(x)*	**80%**	80%
Dito Telecommunity Corporation (Dito)	*(y)*	**25%**	-
Dito Holdings Corp (DHC)	*(z)*	**41.67%**	-

[1]Wholly owned subsidiary of CSC
[2]Wholly owned subsidiary of FTC
[3]Wholly owned subsidiary of Trans-Asia
[4]Wholly owned subsidiary of Starlite

Except for UIBV and CSLSP, which were organized and incorporated in the Netherlands and Singapore, respectively, all the subsidiaries and associates 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. CSC was acquired by the Company from P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI) on November 24, 2016.

(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. Trans-Asia was acquired on December 12, 2016.

(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 35.22% economic interest in 2GO Group, Inc. (2GO). Hence, the Company 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 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 September 2, 2019 and is primarily engaged in shipping agency business and maritime operation and services.

(g) Incorporated on June 20, 2001 and is primarily engaged to own and operate mixed passenger/cargo vessels for domestic (local) trade, to 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 (local) marine and maritime business, such as, but not limited to, acting as managers of ships or their crew, acting as ship chandler, shipbroker and trading in maritime supplies and equipment; and to own, control, supervise, construct, maintain, operate passenger terminals and provide such facilities or services as shall be necessary to upgrade and provide safe, efficient and reliable terminals, rent out terminal spaces to food concessionaires and other allied services related to the operation and management of passenger terminals.

On October 9, 2019, the Company acquired all of the outstanding shares of SFFC from 2GO.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

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

(m) 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.

(n) 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, 2019, CDC has not yet started commercial operations.

(o) Incorporated on March 14, 2018 and is engaged to carry on the business of ship management and to act as agent, broker, ship chandler 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.

(p) 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, 2019.

(q) Incorporated on November 28, 2007 and is engaged in machining and mechanical works on ship machineries and industrial plants.

(r) 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.

(s) 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.

(t) Incorporated on December 31, 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.

(u) Incorporated on October 11, 2018 and is primarily engaged in arrastre services. As of December 31, 2019, Star Maritima has not yet started commercial operations.

(v) 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.

(w) 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.

(x) Organized under Philippines laws and registered with SEC on August 8, 2008 as an investment holding company.

(y) 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 subscribed to 25% of the outstanding capital stock of Dito. Dito has not yet started commercial operations as of December 31, 2019.

(z) Incorporated on November 4, 2019 and 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. The Company subscribed to 41.67% ownership interest in DHC.

DHC has not yet started commercial operations as of December 31, 2019.

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

1.3 Approval of Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the year ended December 31, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Company's BOD on February 12, 2020.

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

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(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 Company'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 PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PFRS 16	:	Leases
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
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty Over Income Tax Treatments
Annual Improvements – (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and PFRS 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

Discussed below are the relevant information about these pronouncements.

(i) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings for the current period. Accordingly, comparative information were not restated.

The new accounting policies of the Group as a lessee are disclosed in Note 2.17(a), while the accounting policies of the Group as a lessor, as described in Note 2.17(b), were not significantly affected.

Discussed below and in the succeeding page are the relevant information arising from the Group's adoption of PFRS 16 and how the related accounts are measured and presented on the Group's consolidated financial statements as at January 1, 2019.

a. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.88%.

c. The Group has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Group also elected to measure the right-of-use assets at their carrying amounts as if the new standard had been applied since commencement date, but discounted using the Group's incremental borrowing rates at the date of initial application.

d. 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.

e. For those leases previously classified as finance leases, the Group recognized the related right-of-use asset and lease liability at the date of initial application at the same amounts as the carrying amount of the capitalized asset and finance lease obligation under PAS 17 immediately before transition.

f. The Group has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:

   i. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Group has no onerous contracts; and,

   ii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the consolidated statement of financial position as at January 1, 2019.

	Notes	Carrying Amount (PAS 17) December 31, 2018	Reclassification	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
Assets:					
Other current assets	c	P 963,520,687	(P 787,500)	P -	P 962,733,187
Property and equipment - net	c, e	17,303,897,157	787,500	191,795,340	17,496,479,997
Liabilities:					
Trade and other payables		3,496,662,037	(5,645,270)	-	3,496,662,037
Interest-bearing loans and borrowings	b, e	15,619,861,853	5,645,270	207,985,188	15,833,492,311
Impact on net assets			P -	(P 16,189,848)	

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes		
Operating lease commitments, December 31, 2018 (PAS 17)	22.3	P	338,792,650
Recognition exemptions			
Lease of low value assets			
Leases with remaining term of less than 12 months		(	62,624,157)
Reasonably certain extension options			16,842,704
Operating lease liabilities before discounting			293,011,197
Discount using incremental borrowing rate		(	79,380,739)
Operating lease liabilities			213,630,458
Obligation from finance leases			59,881,242
Lease liabilities, January 1, 2019 (PFRS 16)		P	273,511,700

(ii) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that the past service cost (or 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.

(iii) PAS 28 (Amendments), *Investment in Associates – Long-term Interests in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 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, 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 investments in associates and joint venture is accounted for using the equity method; hence, are excluded in the scope of PFRS 9.

(iv) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that for the purpose of assessing whether a prepayment feature meets the solely payments of principal and interest (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.

(v) Philippine Interpretations, *IFRIC 23 – Uncertainty Over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management has assessed that the application of the interpretation did not have a material impact on the Group's consolidated financial statements.

(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 did not have 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 amendments and annual improvements that are effective for annual periods beginning after January 1, 2019. The Group will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements* 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) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. The Group assessed that their current accounting policies are still appropriate under the revised framework.

(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* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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, associates 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. 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 (see Note 2.12). 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.

(b) Investments in Associates

Associates are entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associates are 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 Group'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 the Other Income (Charges) 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 investments in associates will not be recovered (see Note 2.18).

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, the investment in joint venture is recognized at cost on initial recognition, 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 investment in a joint venture is subject to impairment testing (see Note 2.18).

(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 24, 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: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

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 and in the succeeding pages.

(i) 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 Group'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 SPPI 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 ECL.

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.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

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 financial assets at FVTPL (FVTPL) if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. 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.

(ii) 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 financial assets at FVOCI (FVOCI) at initial recognition. The Group's financial assets at FVTPL include equity securities which are 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 statement of profit or loss.

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) *Impairment of Financial Assets*

At the end of the reporting period, the Group assesses and recognized allowance for ECL on a forward-looking basis associated with its financial assets carried at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at a reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of future cash flows of the financial instruments evaluated based on a range of possible outcome.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables and other financial assets at amortized cost. 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, the ECLs are recognized in two stages. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures and provides for credit losses that are expected to result from default events that are possible within the next 12 months (12-month ECL). When there has been a significant increase in credit risk on a financial asset, a loss allowance is required for credit losses expected over the remaining life of exposure, irrespective of the timing of the default (lifetime ECL). Accordingly, ECLs are based on the assumption that repayment of the advances or loans is demanded at the reporting date taking into consideration the 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. For cash and cash equivalents, the Group applies low credit risk simplification and measures the ECL on the financial assets based on a 12-month ECL basis unless there has been a significant increase in credit risk since origination, in which case, the loss allowance will be based on lifetime ECL.

(c) *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, amortization 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 valuation 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 27.4).

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(d)]	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 to ten years 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 2.20) 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 2.18).

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 [see Note 3.2(d)].

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 and borrowings, 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 and borrowings include loans that are raised for support of the investing activities and working capital requirements of the Group and lease liabilities. 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 2.20). 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.

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 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 consolidated financial instruments.

2.12 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 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 interest 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 expenses as incurred and subsequent changes 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 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 NCI's proportionate share of the recognized amounts of the acquiree's identifiable assets.

In cases wherein the accounting for the acquisition is not yet complete as of the end of the year, the fair value of the identifiable assets and liabilities are presented as provisionary amounts and will be adjusted upon finalization of the valuation, which is expected to be completed within 12 months from the date of acquisition.

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 2.18).

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 Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes 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.

2.13 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.

2.14 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 consolidated 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.

2.15 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 gating 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.

The following specific recognition criteria must be met before revenue is recognized:

(a) *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.

(b) *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 continuing voyager charter (CVC), time charter (TC) or BB arrangement [see Note 3.1(b)].

Revenues from BB arise from the hiring of vessels for a specified period of time, with no administration or technical maintenance included as part of the agreement. This arrangements qualify as lease; hence, revenue is recognized on a straight-line basis over the term of the contract [see Note 2.16(a)(ii)].

On the other hand, revenues from TC and 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, with the distinction that in a TC, bunkering and port charges are shouldered by the customer.

(c) *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 one to ten hours.

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

(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) *Rendering of services* – Revenue from rendering of services generally include performance of ship management and crewing services, warehousing and distribution services. Ship management and crewing services are recognized over time based on the terms of the contract which assumes that the customer receives the benefits as the Group performs the service. 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 over time when the performance of the contractually agreed-upon services have been rendered 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 TC, CVC, passage, freight, tugboat fees, and rendering of 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.

Prior to 2018, 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 2.20).

2.16 Leases

The Group accounts for its leases as follows:

(a) Accounting for Leases in Accordance with PFRS 16 (2019)

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

For any new contracts entered into on or after January 1, 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 assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

(i) Group as Lessee

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability on the consolidated statement of financial position. 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 (see Note 2.18).

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 under Property and Equipment account and lease liabilities have been included under Interest-bearing Loans and Borrowings account.

(ii) Group as Lessor

The Group's accounting policy under PFRS 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 (2018 and 2017)

(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 and Borrowings account in the 2018 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 wherein the Group substantially transfers to the lease all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating 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.

2.17 *Functional Currency and Foreign Currency Transactions*

(a) Transactions and Balances

The accounting records of the Group, except UIBV and CSLSP, 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 and CSLSP 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 and CSLSP 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 consolidated statements of profit or loss 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.

2.18 *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.

2.19 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, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into 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) *Share-based Employee Compensation*

The Group grants share options to key executive officers eligible under a stock option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss with a corresponding credit to Retained Earnings (Deficit).

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number of options that ultimately vest on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of the share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid-in capital.

(d) *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.

(e) *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.

(f) Short-term Benefits

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Trade and Other Payables account in the consolidated statement of financial position.

(g) 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.

2.20 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.

2.21 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 assets and liabilities 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.

2.22 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.

Transactions amounting to more than P1.0 billion that were entered into with a related party, either individually or in aggregate value over a 12-month period with the same related party, are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transactions (RPT) may be ratified by the vote of the stockholders representing at least two-thirds of the capital stock. For aggregate RPT transactions within a 12-month period that breaches the materiality threshold of P1.0 billion, the same BOD approval would be required for the transactions that meet and exceed the materiality threshold covering the same related party.

2.23 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 (deficit) represent all current and prior period results of operations as reported in the consolidated statement of profit or loss.

2.24 Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net profit (loss) 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 (loss) 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 (loss) per share is equal to the basic earnings (loss) per share.

2.25 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 Lease Term of Contracts with Renewal and Termination Options (2019)

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of warehouses and offices, the factors that are normally the most relevant are (a) if significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Group assessed that the renewal period of certain leases of warehouses and offices should not be included in the lease term, as there is no reasonable certainty that such renewal option will be exercised. In addition, renewal options of some leases are deemed unenforceable as they depend on the mutual agreement of both lessor and lessee. Moreover, the Group also assessed that the termination option for a certain office lease is reasonably certain not to be exercised.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

(b) Determination of Timing of Satisfaction of Performance Obligations

In determining the appropriate method to use in recognizing the Group's revenues from TC, CVC, passage, freight, tugboat fees and rendering of 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.

(c) 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.

(d) 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 also 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 and have assessed that it could only exercise significant influence and not control over KGLI-NM.

(e) 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 and prior years 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.

In 2019, upon adoption of PFRS 16, distinction between operating and finance leases are applicable only to lease agreements as a lessor. All leases entered into as a lessee, except for those qualified under the optional exemptions as provided by the standard, are required to be recognized on-balance sheet.

(f) 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.

(g) 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 2.14 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 in the succeeding page.

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using reasonable rates deemed by management equal to the Group's incremental borrowing rates. In determining a reasonable discount rate, management considers the term of the lease, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Impairment of Trade and Other Receivables, Security Deposits and Advances to Related Parties*

The Group measures impairment of trade and other receivables and security deposits at an amount equal to lifetime ECL. The expected credit losses on trade and other 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 refers only to the 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.

(c) *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.

(d) *Estimating Useful Lives and Residual Values 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 Group also reviews the residual value of its property and equipment to ensure that the amount reflects the future economic benefits embodied in these vessels at the point of disposal.

The carrying amounts of property and equipment are analyzed in Note 9. In 2019, management revised the residual value of its vessels. This change in accounting estimate was applied prospectively, beginning January 1, 2019, and resulted in the decrease in depreciation totaling P103.4 million during the year and in the succeeding periods. Also, 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 also 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.

(e) Fair Value Measurement of Vessels and Vessel Equipment

The Group's vessels and vessel equipment, 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 and vessel equipment with valuation 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 the elements discussed in Note 27.4 may affect prices and the value of the assets. The amounts of revaluation recognized on the Group's vessels are disclosed in Note 9.

(f) 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 December 31, 2019 and 2018 will be fully utilized in the coming periods. The carrying value of deferred tax assets as of December 31, 2019 and 2018 is disclosed in Note 18.2.

(g) 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 2.18). 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 a certain vessel is impaired as of December 31, 2019. The Group has recognized impairment losses amounting to P7.4 million and is presented as Impairment losses on property and equipment under Cost of Sales and Services in the 2019 consolidated statement of profit or loss (see Notes 9 and 14). No impairment losses are required to be recognized on the Group's non-financial assets in 2018 and 2017.

(h) 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 16.2.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2019	2018
Cash on hand and in banks	P 362,873,262	P 429,068,769
Short-term placements	12,355,243	14,427,200
	P 375,228,505	P 443,495,969

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 December 31, 2019 and 2018 did not include an amount of P20.7 million and P1.6 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11). Such amount is not available for the general use of the Group as this is reserved for principal and interest payments for certain loans (see Note 12.1).

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	2019	2018
Trade receivables	19.1, 19.3	P 2,012,718,072	P 1,288,836,808
Due from agencies		172,264,135	65,397,867
Advances to officers and employees		20,909,146	60,134,374
Claims receivables		16,658,828	16,332,854
Others		22,689,807	16,945,367
		2,245,239,988	1,447,647,270
Allowance for expected credit losses		(19,504,177)	(17,601,775)
		P 2,225,735,811	P 1,430,045,495

All of the Group's trade and other receivables have been assessed for impairment using ECL methodology. Based on the assessment made using the provisional matrix as determined by the management, adequate amounts of allowance for ECL has been provided (see Note 25.2).

A reconciliation of the allowance for ECL at the beginning and end of 2019 and 2018 is shown below.

	2019	2018
Balance at beginning of year	P **17,601,775**	P 17,601,775
Balance from acquired subsidiary	**1,902,402**	-
Balance at end of year	P **19,504,177**	P 17,601,775

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 P333.2 million and P479.7 million as of December 31, 2019 and 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 changes in the fair values of financial assets at FVTPL for the years ended December 31, 2019 and 2018.

7. INVENTORIES

This account includes the following:

	Note	2019	2018
Spare parts		P **335,357,723**	P 164,896,119
Fuel and lubricants	19.2	**165,527,972**	216,726,685
Shipping supplies		**42,169,599**	122,627,585
Food, beverage and other supplies		**3,748,659**	20,745,196
Electrical parts		**-**	909,193
		P **546,803,953**	P 525,904,778

As of December 31, 2019 and 2018, based on management's assessment, the net realizable value of all of the Group's 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.

Costs incurred relating to these inventories, such as Bunkering, Repairs and maintenance and Supplies, are presented under the Cost of Sales and Services account in the consolidated statements of profit or loss (see Notes 14 and 15).

As of December 31, 2019 and 2018, there are no inventories pledged as security for any of the Group's liabilities as of the end of each reporting period.

8. OTHER CURRENT ASSETS

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

	Notes	2019	2018
Input VAT		**P 328,432,137**	P 470,121,365
Deferred input VAT		**268,563,972**	155,837,184
Creditable withholding taxes		**247,937,317**	175,798,416
Prepayments		**145,954,235**	88,413,417
Deferred charges		**69,603,867**	52,091,850
Advances to suppliers		**21,918,067**	9,625,658
Restricted cash	4	**6,248,270**	-
Security deposits	19.3, 22.3	-	11,462,687
Others		-	170,110
		P 1,088,657,865	P 963,520,687

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

Deferred input VAT pertains to the input VAT on services rendered to the Group that remains to be unpaid.

Deferred charges pertain to downpayment made to suppliers for various future projects that are under pre-development.

Restricted cash represents bank accounts that are reserved for debt service requirements in relation to certain loans of the Group (see Note 12.1)

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	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	Right-of-Use Assets	CIP	Total
December 31, 2019								
Cost or revalued amounts	P 1,413,263,540	P 25,044,105,607	P 182,402,234	P 228,140,385	P 162,911,778	P 1,234,591,265	P 1,280,335,958	P 29,545,750,767
Accumulated depreciation and amortization	-	(6,341,314,360)	(85,960,943)	(44,761,043)	(107,326,845)	(43,987,279)	-	(6,623,350,470)
Accumulated impairment loss	-	(7,394,742)	-	-	-	-	-	(7,394,742)
Net carrying amount	P 1,413,263,540	P 18,695,396,505	P 96,441,291	P 183,379,342	P 55,584,933	P 1,190,603,986	P 1,280,335,958	P 22,915,005,555
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	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
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	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

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

	Land	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								
As previously stated	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
Effects of adoption of PFRS 16	-	-	-	-	-	192,582,840	-	192,582,840
As restated	1,383,120,059	14,353,226,521	102,771,588	65,259,809	67,462,277	192,582,840	1,332,056,903	17,496,479,997
Balance from acquired subsidiary at September 30, 2019, net of accumulated depreciation and amortization	-	944,468,427	45,030	460,523	685,519	-	33,949,699	979,609,198
Additions	30,143,481	2,805,421,415	23,769,469	125,553,740	17,744,218	1,042,008,425	1,071,988,115	5,116,628,863
Reclassification	-	1,157,658,759	-	-	-	-	(1,157,658,759)	-
Revaluation increment	-	632,951,901	-	-	-	-	-	632,951,901
Disposals - net	-	(27,825,807)	(1,392,391)	-	(4,759,369)	-	-	(33,977,567)
Impairment loss	-	(7,394,742)	-	-	-	-	-	(7,394,742)
Reversal of impairment loss	-	2,214,620	-	-	-	-	-	2,214,620
Depreciation and amortization charges for the year	-	(1,165,324,589)	(28,752,405)	(7,894,730)	(25,547,712)	(43,987,279)	-	(1,271,506,715)
Balance at December 31, 2019, net of accumulated depreciation and amortization and impairment losses	P 1,413,263,540	P 18,695,396,505	P 96,441,291	P 183,379,342	P 55,584,933	P 1,190,603,986	P 1,280,335,958	P 22,915,005,555
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, 2019, net of accumulated depreciation and amortization	-	450,283,483	1,016,952	-	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	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

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 Chelsea Dominance	January 22, 2020	P	591,114,000
MV San Nicolas of Myra	January 22, 2020		304,133,000
MT Chelsea Cherylyn	January 15, 2020		843,000,000
M/Tug Fortis IX	December 23, 2019		78,000,000
M/Tug Fortis XV	December 23, 2019		60,000,000
M/Tug Fortis III	December 16, 2019		35,000,000
M/Tug Fortis V	December 16, 2019		80,000,000
MV Starlite Pacific	November 28, 2019		33,691,000
MT Chelsea Charlize	November 20, 2019		384,970,000
MV Starlite Jupiter	November 19, 2019		27,369,000
MV Starlite Stella Del Mar	November 19, 2019		578,865,000
MV Starlite Tamaraw	November 15, 2019		21,573,000
MV Asia Philippines	November 11, 2019		73,000,000
MT BMI Patricia	July 26, 2019		55,500,000
MT Jasaan	July 27, 2019		42,500,000
MV Trans-Asia 12	July 13, 2019		95,000,000
MV Trans-Asia 5	July 11, 2019		105,000,000
MV Trans-Asia 8	July 08, 2019		100,000,000
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
MT Chelsea Endurance	May 30, 2019		330,000,000
MV Starlite Saturn	May 23, 2019		441,830,000
MV Starlite Annapolis	May 20, 2019		75,691,000
MV Starlite Archer	May 20, 2019		460,746,000
MV Starlite Reliance	May 20, 2019		441,975,000
MT Chelsea Denise II	March 26, 2019		442,000,000
MV Starlite Eagle	March 25, 2019		449,808,000
MV Trans-Asia 2	February 28, 2019		90,000,000
MV Trans-Asia 3	February 28, 2019		200,000,000
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
MT Chelsea Enterprise	January 31, 2019		135,000,000
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 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
MT Denise	November 11, 2017		195,000,000
MT Great Princess	May 31, 2016		1,450,000,000
MV Asia Pacific	April 27, 2016		71,000,000
MT Great Diamond	August 5, 2015		1,021,886,700

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 2019, the Group acquired new vessels, which have not been subjected to appraisals 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, accumulated impairment losses and net carrying amount as of December 31, 2019 and 2018 are as follows:

	2019	2018
Cost	**P20,438,660,970**	P 12,836,950,468
Accumulated depreciation	**(4,391,704,916)**	(1,834,487,417)
Accumulated impairment losses	**(7,394,742)**	(2,214,620)
Net carrying amount	**P16,039,561,312**	P 11,000,248,431

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

	Notes	2019	2018	2017
Cost of sales and services	14	**P 1,213,397,083**	P 835,719,005	P 796,422,076
Other operating expenses		**58,109,632**	32,339,069	22,335,101
	15	**P 1,271,506,715**	P 868,058,074	P 818,757,177

Certain vessels of the Group with a total net carrying amount of P11,259.3 million and P12,059.6 million as of December 31, 2019 and 2018, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 12).

Capitalized borrowing costs amounted to P65.6 million and P71.7 million as of December 31, 2019 and 2018 and is recognized using a capitalization rate of 7.74% (see Note 12.1).

In 2019, the Group recognized impairment loss on certain property and equipment amounting to P7.4 million and is presented under Cost of Sales and Services account in the 2019 consolidated statement of profit or loss (see Note 14). No impairment loss on property and equipment was recognized in 2018 and 2017.

In 2019, the Group also recognized a reversal of impairment loss of certain property and equipment amounting to P2.2 million and is presented as Gain on reversal of impairment losses on property and equipment under the Other Income account in the 2019 consolidated statement of profit or loss. There was no similar transaction in 2018 and 2017.

As of December 31, 2018, the carrying amounts of idle property and equipment due to breakdown of the main engine gearbox of certain vessels amounted to P1,305.8 million. In 2019, these assets resumed its normal operations. Meanwhile, management has assessed that the cost of fully depreciated property and equipment that are still in use in operations is insignificant to the consolidated financial statements.

10. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

The carrying value of the Group's investments in associates and a joint venture as of the end of the reporting periods follows:

	2019	2018
Associates:		
KGLI-NM		
Cost	**P 2,104,212,296**	P 2,104,212,296
Accumulated equity share in the total comprehensive income from previous year	**(346,960,795)**	106,087,393
Equity share in net loss	**(250,901,194)**	(453,048,188)
Equity share in OCI	**(26,478,210)**	-
	1,479,872,097	1,757,251,501
DHC - Cost	**1,041,666,665**	-
Dito		
Cost	**4,106,249,866**	-
Equity share in net loss	**(232,254,791)**	-
Equity share in stock issuance costs	**(60,265,795)**	-
	3,813,729,380	-
	6,335,268,142	1,757,251,501
Jointly controlled entity – Meridian Maritime Training Center (Meridian)	**81,001,440**	63,917,332
	P 6,416,269,582	P 1,821,168,833

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 35.22% economic interest in 2GO. Hence, the Company has a 28.18% indirect economic interest in 2GO (see Note 20.1).

On May 10, 2019, the Company subscribed to 40,833,333 common shares and 22,916,666 preferred voting 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, P3.6 billion worth of shares remains unpaid as of December 31, 2019 and is presented as part of Subscription payable under Trade and Other Payables in the 2019 consolidated statement of financial position (see Note 13).

On October 4, 2019, the Company subscribed to 1,041,666,665 common shares or equivalent to 41.67% interest of DHC's authorized capital stock for a total amount of P1.0 billion. Out of the subscribed shares, P781.2 million worth of shares remains unpaid as of December 31, 2019 and is presented as part of Subscription payable under Trade and Other Payables in the 2019 consolidated statement of financial position (see Note 13).

The carrying amount of the identifiable assets and liabilities of Dito and DHC upon acquisition approximate their respective fair values.

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

	KGLI-NM	Dito	DHC	Total
December 31, 2019				
Total current assets	P 7,846,952	P 1,323,845	P 625,000	P 9,795,797
Total non-current assets	8,555,600	12,625,137	-	21,180,737
Total assets	P 16,402,552	P 13,948,982	P 625,000	P 30,976,534
Total current liabilities	P 8,883,408	P 398,389	P -	P 9,281,797
Total non-current liabilities	3,962,993	765,839	-	4,728,832
Total liabilities	P 12,846,401	P 1,164,228	P -	P 14,010,629
Total revenues	P 21,409,914	P -	P -	P 21,409,914
Net loss	(P 890,352)	(P 929,019)	P -	(P 1,819,371)
December 31, 2018				
Total current assets	P 8,469,250	P -	P -	P 8,469,250
Total non-current assets	8,812,080	-	-	8,812,080
Total assets	P 17,281,330	P -	P -	P 17,281,330
Total current liabilities	P 9,699,008	P -	P -	P 9,699,008
Total non-current liabilities	9,336,878	-	-	9,336,878
Total liabilities	P 19,035,886	P -	P -	P 19,035,886
Total revenues	P 21,060,201	P -	P -	P 21,060,201
Net loss	(P 1,421,373)	P -	P -	(P 1,421,373)

No dividends were received from the Group's associates during the years 2019, 2018 and 2017.

The Group's associates are all private companies; therefore, no quoted market prices are available for these 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 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 investments 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 December 31, 2019 and December 31, 2018.

The Group does not have any restriction on the ability to access or use assets, and settle liabilities of the associates and joint venture.

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

11. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	Notes	2019	2018
Advances to suppliers	22.9	P **279,567,940**	P 694,861,356
Security deposits	19.3, 22.3	**136,616,637**	29,066,341
Deferred input VAT		**54,657,288**	-
Software, net of amortization		**27,753,354**	-
Restricted cash	4	**14,500,000**	1,637,081
Others		**9,243,062**	9,073,862
		P **522,338,281**	P 734,638,640

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 Group's ongoing projects.

Software refers to computer software licenses and software development costs. Amortization amounting to P1.1 million was recognized in 2019 and is presented as part of Depreciation and amortization under Other Operating Expenses account in the 2019 consolidated statement of profit or loss (see Note 15).

Restricted cash represents bank accounts that are reserved for debt service requirements in relation to certain loans of the Group (see Note 12.1)

12. INTEREST-BEARING LOANS AND BORROWINGS

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

	Note	2019	2018
Current:			
Bank loans	12.2	P **4,043,147,077**	P 4,894,210,434
Term loans	12.1	**1,924,295,582**	1,595,629,564
Lease liabilities	12.4	**111,246,482**	24,207,330
Mortgage loans	12.3	**45,811,426**	41,506,393
		6,124,500,567	6,555,553,721
Non-current:			
Term loans	12.1	**8,874,595,628**	8,889,862,811
Lease liabilities	12.4	**1,123,285,149**	35,673,912
Mortgage loans	12.3	**184,739,848**	138,771,409
		10,182,620,625	9,064,308,132
		P16,307,121,192	P15,619,861,853

A reconciliation of the carrying amounts of interest-bearing loans and borrowings at the beginning and end of December 31, 2019 and 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	913,094,452	1,480,068,901	-	-	2,393,163,353
Repayments	(926,196,358)	(2,302,192,849)	(50,230,413)	(28,625,571)	(3,307,245,190)
	(13,101,906)	(822,123,948)	(50,230,413)	(28,625,571)	(914,081,837)
Non-cash financing activities:					
Balance from acquired subsidiary	335,740,741	50,000,000	-	-	385,740,741
Effect of adoption of PFRS 16	-	-	-	213,630,458	213,630,458
Additions	-	-	21,564,476	989,645,502	1,011,209,978
Reclassification	-	(78,939,409)	78,939,409	-	-
Restatement of foreign currency denominated loans	(9,240,000)	-	-	-	(9,240,000)
	326,500,741	(28,939,409)	100,503,885	1,203,275,960	1,601,341,177
Balance at December 31, 2019	**P 10,798,891,210**	**P 4,043,147,077**	**P 230,551,274**	**P 1,234,531,631**	**P 16,307,121,192**
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)
	2,017,040,603	2,438,395,857	(21,885,205)	(16,924,358)	4,416,626,897
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)
	754,085,359	-	40,183,362	76,805,600	871,074,321
Balance at December 31, 2018	P 10,485,492,375	P 4,894,210,434	P 180,277,802	P 59,881,242	P 15,619,861,853

12.1 Term Loans

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

	Notes	Security	Terms	Interest Rates	Outstanding Balance 2019	Outstanding Balance 2018
China Banking Corporation (CBC)	(h)	CSC shares of stocks/ Continuing Suretyship	6 years	4.50%	P 1,665,000,000	P 1,800,000,000
Development Bank of the Philippines (DBP)	(n)	MT Chelsea Providence	15 years	6.50%	1,473,214,285	1,500,000,000
Philippine Business Bank (PBB)	(j)	MV Eagle, FD Exuberance MV Archer, MV Saturn	10 years	7.50%	843,799,503	976,884,263
CBC	(r)	Real Estate Mortgage	15 years	7.25%	800,000,000	-
PBB	(j)	Unsecured	15 years	7.00%	749,689,849	800,000,000
DBP	(m)	Trans - Asia 16, 17 and 18	15 years	6.50%	595,928,571	618,000,000
DBP	(l)	MV San Pedro Calungsod MV San Lorenzo Ruis Uno MV St. Nicholas of Myra	15 years	6.50%	532,875,621	557,526,997
DBP	(k)	MV Pioneer, MV Reliance	15 years	6.95%	529,400,000	581,880,000
PBB	(p)	MV Salve Regina	15 years	7.00%	457,097,220	460,000,000
BDO Unibank, Inc. (BDO)	(e)	Trans - Asia 8, Trans - Asia 9, Trans - Asia 10	10 years	4.25%	364,179,579	494,370,980
DBP	(s)	MV St. Camael and MV St. Ariel	15 years	6.50%	328,888,889	-
PBB	(o)	MV Stella Del Mar	15 years	7.00%	302,914,899	346,699,500
Mega International Commercial Bank Co. (MICBC)	(i)	Continuing Suretyship	5 years	6.10%	258,750,000	281,250,000
Robinsons Bank Corporation (RBC)	(i)	Continuing Suretyship	5 years	6.10%	258,750,000	281,250,000
CTBC Bank (Phils) Inc. (CTBC)	(i)	Continuing Suretyship	5 years	6.10%	258,750,000	281,250,000
CBC	(f)	Trans-Asia 15	10 years	7.00%	242,129,630	200,000,000
PBB	(c)	MT Chelsea Dominance	7 years	6.06%	243,266,625	308,137,725
CBC	(b)	MT Chelsea Charlize	7 years	3.25%	236,805,333	316,344,000
PBB	(c)	MT Chelsea Endurance	7 years	6.06%	206,334,375	261,356,875
First Commercial Bank, Ltd. (FCB)	(i)	Continuing Suretyship	5 years	6.10%	172,500,000	187,500,000
Rizal Commercial Banking Corp. (RCBC)	(q)	Starlite Sprint I	8 years	9.50%	113,094,452	-
BDO	(a)	MT Chelsea Denise II	5 years	6.46%	103,820,000	149,980,000
Asia United Bank (AUB)	(d)	MTug Fortis VI, MTug Fortis VII and MTug Fortis VIII	7 years	5.56%	62,539,867	70,357,350
AUB	(d)	MTug Fortis III and MTug Fortis V	7 years	5.56%	46,464,133	56,789,496
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	(g)	MTug Pindasan, MTug Samal MTug Sigaboy	5 years	6.00% to 6.50%	-	2,321,621
					10,846,192,831	10,531,898,807
Discount on loans payable					(47,301,621)	(46,406,432)
					P 10,798,891,210	P 10,485,492,375

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

In 2014, PNX-Chelsea entered into a Memorandum of Agreement (MOA) with China Shipbuilding & Exports Corporation 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, PNX-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.

The outstanding loan is secured by a chattel mortgage on MT Chelsea Denise II with net carrying amount of P506.3 million and P462.5 million as of December 31, 2019 and 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 December 31, 2019, the Company has not met the minimum DSCR; however, management plans to fully pay the loan in 2020, hence, it is presented as part of Current Liabilities in the 2019 consolidated statement of financial position.

(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.

Debt issuance costs amounted to P13.5 million, of which P0.3 million and P0.4 million was amortized in 2019 and 2018, respectively, using the effective interest rates of 5.50%. Amortized debt issuance costs was recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account in 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 loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P383.3 million and P429.3 million as of December 31, 2019 and 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 are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P909.0 million and P707.8 million, as of December 31, 2019 and 2018, respectively (see Note 9).

(d) TLA with AUB – MTug Fortis III, MTug Fortis V, MTug Fortis VI, MTug Fortis VII and MTug Fortis VIII

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

Certain trade receivables amounting to P89.7 million and P43.4 million as of December 31, 2019 and 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 P232.5 million and P270.0 million as of December 31, 2019 and 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.

Certain vessels with a net carrying amount of P156.6 million and P182.0 million as of December 31, 2019 and 2018, respectively, was used as collateral to secure the payment of these loans (see Note 9). These loans do not contain any covenant.

(f) TLA with CBC – Trans-Asia 15

On October 2, 2018, Trans-Asia obtained a long-term loan from CBC amounting to P200.0 million to fund its acquisition of vessels. The loan is subject to annual interest rate of 7.00% and is payable monthly in arrears up to 10 years from the initial drawdown, inclusive of one-year grace period from the date of drawdown. Principal shall be repayable in equal monthly amortizations to commence at the end of the 13th month of the drawdown.

On August 30, 2019, Trans-Asia obtained additional loan from the same bank amounting to P50.0 million to fund its acquisition of vessels. The loan is subject to annual interest rate of 7.00% and is payable monthly in arrears up to four years from the date of drawdown. Principal shall be repayable in equal monthly amortizations to commence at the end of the 13th month of the drawdown.

Certain vessel with a net carrying amount of P156.6 million and P182.0 million as of December 31, 2019 and 2018, respectively, was used as collateral to secure the payment of these loans (see Note 9). These loans do not contain any covenant.

(g) TLA with UCPB and PBComm – DGMSI

In 2014, DGMSI obtained loans from UCPB and PBComm 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 fully settled as of December 31, 2019.

Certain vessels of DGMSI with net carrying amounts of P90.1 million and P89.8 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9). These loans have no existing covenants.

(h) TLA with CBC - CSC

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 19.8(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 installments 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.

The agreement requires CSC to maintain debt-to-equity ratio of not more than 3.50:1.00. As of December 31, 2019 and 2018, CSC has complied with this covenant.

(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 agreement requires Trans-Asia to maintain debt-to-equity ratio of not more than 3:50:1:00 and a DSCR of at least 1.25.

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 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. The loan does not include any covenant.

Certain vessels of Starlite with net carrying amounts of P1,248.2 million and P1,203.7 million as of December 31, 2019 and 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 P684.5 million and P753.6 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9). The agreement also requires Starlite to maintain debt-to-equity ratio of not more than 8.00:1.00, current ratio of at least 0.50:1.00 and DSCR of at least 1.00. As of December 31, 2019 and 2018, Starlite has complied with these covenants.

(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 P18.5 million and P38.3 million as of December 31, 2019 and 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 P834.0 million and P565.7 million as of December 31, 2019 and 2018, respectively, 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, 2019 and 2018, PNX-Chelsea has complied with this covenant.

(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 MV Trans-Asia 16, MV Trans-Asia 17 and MV 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. The agreement requires Trans-Asia to maintain a DE ratio of not more than 3.50:1:00, current ratio of 1:00:1:00 and DSCR of at least 1.0.

Certain vessels of Trans-Asia with net carrying amounts of P1,005.7 million and P840.5 million as of December 31, 2019 and 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. The agreement requires CSC to maintain debt-to-equity ratio of not more than 3.00:1.00 and DSCR of at least 1.00.

A certain vessel of CSC with net carrying amount of P1,587.7 million and P1,620.1 million as of December 31, 2019 and 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 loan does not include any covenant.

The vessel of SPFI with net carrying amounts of P412.2 million and P449.7 million as of December 31, 2019 and 2018, respectively, 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 loan does not include any covenant.

The vessel of SGFI with net carrying amounts of P778.8 million and P814.6 million as of December 31, 2019 and 2018 was used as a collateral to secure the payment of this loan (see Note 9).

(q) TLA with RCBC – Starlite

In 2018, Starlite entered into a loan agreement with RCBC to finance the acquisition of Starlite Sprint I. The first drawdown of P105.0 million is payable in equal quarterly installments up to eight 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 Starlite with net carrying amounts of P118.1 million as of December 31, 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 December 31, 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 December 31, 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 P1,199.5 million as of December 31, 2019 was used as a collateral to secure payment of this loan (see Note 9). The loan agreement also requires the Company to maintain a reserve accounts specifically for payment of principal and interest; such amounts are presented as part of Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11).

(s) TLA with DBP – SFFC

On May 20, 2016, SFFC obtained a long-term loan facility from DBP amounting to P370.0 million with a term of 15 years, inclusive of 1.5 years grace period, in 53 equal quarterly installments to commence at the end of the seventh quarter from the date of the initial drawdown, which can be availed through promissory note with an interest at the prevailing market rate of 6.5% to finance the construction of MV St. Ariel and MV St. Camael.

Certain vessels of SFFC with net carrying amount of P440.6 million as of December 31, 2019, was used as collateral to obtain this loan. In addition, SFFC is required to maintain debt-to-equity ratio not exceeding 2.30:1.00 and maintain debt service coverage ratio of at least 2.00 at each testing date. SFFC has complied with these covenants.

With regard to the loans under Note 12.1(i), (m) and (n), Trans-Asia and CSC have complied with the financial, affirmative and negative covenants for the past years except that, in 2019, Trans-Asia exceeded the agreed DE ratio and had lower than the indicated current ratio. Trans-Asia and CSC also had lower than the stated DSCR. Prior to December 31, 2019, the companies requested for the waiver of these financial covenants and management is confident that such will be approved based on the preliminary discussions with the lender banks. The companies have been up to date in its servicing of the loans and have not received any written notice, as of the date of the issuance of the consolidated financial statements, that the loans are due and demandable, which is provided for in the loan covenants as a basis to reclassify the loan to current.

Interest incurred on these loans totaling P569.2 million, P524.9 million and P364.0 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). Certain interest costs incurred in 2019, 2018 and 2017 were capitalized as part of Property and Equipment (see Note 9). The related unpaid interest as of December 31, 2019 and 2018 amounting to P57.6 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 2019	Outstanding Balance 2018
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 7.50%	P 1,265,823,896	P 2,013,768,437
UCPB	MT Chelsea Intrepid MT BMI Patricia	90 days	5.00% to 5.75%	896,400,000	920,200,000
CBC	Unsecured	60 days	6.00%	522,163,934	480,000,000
Landbank of the Philippines	Unsecured	90 days	9.00%	500,000,000	300,000,000
DBP	MT Chelsea Cheryiyn	180 days	4.00 to 4.25%	300,000,000	300,000,000
Pentacapital	Unsecured	360 days	6.00%	200,000,000	400,000,000
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%	60,300,000	79,400,000
AUB	Unsecured	30 days	8.00%	50,000,000	-
BDO Unibank Inc	Trans-Asia 1	180 days	6.50%	48,459,247	33,500,000
PVB	Unsecured	180 days	11.04%	-	167,341,997
				P 4,043,147,077	P 4,894,210,434

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 December 31, 2019 and 2018, respectively (see Note 9). These loans do not include any covenant.

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 17.1). The related unpaid interest as of December 31, 2019 and 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 Loans

	Security	Terms	Interest Rates	Outstanding Balance 2019	2018
BDO	Real Estate Mortgage	10 years	6.75%	P 173,432,009	P 109,997,080
Chinabank Savings	Chattel Mortgage on Transportation Equipment	3 years	11.00% to 17.00%	30,416,821	38,503,117
AUB	Chattel Mortgage on Transportation Equipment	3 to 5 years	7.00% to 8.50%	21,034,055	19,991,031
RCBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	2,261,162	2,410,776
PNB	Chattel Mortgage on Transportation Equipment	1 year	7.30%	1,631,211	2,648,275
BDO	Chattel Mortgage on Transportation Equipment	3 years	8.51%	1,069,594	3,045,821
BPI	Chattel Mortgage on Transportation Equipment	3 years	10.28%	706,422	1,390,922
CBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	-	1,986,724
BDO	Chattel Mortgage on Transportation Equipment	3 years	6.90% to 7.53%	-	304,056
				P 230,551,274	P 180,277,802

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 17.00% 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 17.1). These loans do not contain any covenant.

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

12.4 Lease Liabilities

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

	Notes	2019	2018
Lease liabilities	12.4(b)	P 1,234,531,631	P -
Obligations under finance lease	12.4(a)	-	59,881,242
		P 1,234,531,631	P 59,881,242

(a) Obligations under Finance Lease

In 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 P112.5 million as of December 31, 2018. Total interest expense incurred for the year ended December 31, 2018 is shown as part of Finance Costs under Other Income (Charges) section in the 2018 consolidated statement of profit or loss (see Note 17.1). There was no similar transaction in 2017.

As of January 1, 2019, the obligations under finance lease were presented as part of Lease liabilities due to the adoption of PFRS 16 [see Note 2.2(a)(i)(e)].

(b) Lease Liabilities

The Group has leases for certain offices, warehouses and related facilities, lots and vessel and vessel equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its Property 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. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over offices and warehouse and related facilities, the Group must keep these 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 the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognized in the 2019 consolidated statement of financial position:

	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with termination options
Warehouses and related facilities	7	1 - 2 years	2 years	3	-
Lot	7	2 - 10 years	5 years	-	-
Offices	7	2 - 6 years	4 years	3	1
Vessel and vessel equipment	2	2 - 5 years	4 years	-	-

Additional information on the lease liabilities and amounts in respect of possible future lease extension or termination options not recognized as liability are as follows:

	Warehouses and related facilities	Lot	Offices	Vessel and vessel equipment	Total
Lease liabilities	P 11,807,770	P 127,979,122	P 202,441,615	P 892,303,124	P 1,234,531,631
Number of leases with an extension option that is not considered reasonably certain of exercise	3	-	3	-	6
Additional lease liabilities that would be incurred were it to become reasonably certain that extension option would be exercised	P 9,039,292	-	P 187,363,688	-	P 196,402,980

The Group historically does not exercise its termination options. The lease termination option not recognized as part of liability, based on the lease contract, is expected to be equivalent to a certain percentage of the unrealized income of the lessor due to the termination.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of December 31, 2019 is as follows:

	Within 1 year	Less than 5 years	More than 5 years	Total
Lease payments	P 172,852,618	P 1,329,932,977	P 44,940,134	P 1,547,725,729
Finance charges	(61,606,136)	(247,985,943)	(3,602,019)	(313,194,099)
Net present value	P 111,246,482	P 1,081,947,034	P 41,338,114	P 1,234,531,631

As of December 31, 2019, the Group had not committed to any leases which had not commenced.

The Group also has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses relating to short-term leases amounted to P80.9 million and is presented as Rentals under Cost of Sales and Services and Other Operating Expenses in the 2019 consolidated statement of profit or loss (see Notes 14 and 15). As of December 31, 2019, the Company is committed to these short-term leases, and the total commitment amounts to P31.9 million.

13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2019	2018
Trade payables	19.2	**P 4,500,451,349**	P 2,145,692,295
Subscription payable	10	**4,355,208,332**	-
Non-trade payables	19.6	**1,140,956,087**	500,000,000
Accrued expenses	12, 19.2	**342,341,676**	404,482,927
Deferred output VAT		**239,818,083**	124,808,576
Government-related obligations		**48,085,363**	196,937,914
Output VAT		**24,434,333**	28,895,294
Deferred income		**13,658,758**	-
Provisions	22.5	**707,213**	458,450
Deposits payable		**-**	1,409,371
Others		**94,264,215**	93,977,210
		P 10,759,925,409	P 3,496,662,037

Subscription payable pertains to the amount of subscribed shares on the Group's investments in associates that remains unpaid as of December 31, 2019 (see Note 10).

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 years ended December 31 are shown below.

	Notes	2019	2018	2017
Bunkering	7, 19.2	P 1,983,576,307	P 1,243,088,820	P 866,546,176
Depreciation and amortization	9	1,213,397,083	835,719,005	796,422,076
Salaries and employee benefits	16.1	746,460,089	589,964,580	363,097,068
Outside services		290,300,325	138,607,504	126,905,768
Repairs and maintenance	7	265,835,162	120,867,972	134,730,583
Insurance		249,237,841	145,620,167	129,593,972
Port expenses		205,556,151	148,475,361	150,630,581
Charter hire fees		86,839,201	240,372,627	98,368,503
Supplies	7	79,411,947	97,260,280	44,880,251
Cost of inventories sold		69,140,884	11,217,099	37,614,552
Taxes and licenses		31,588,321	30,009,605	19,945,187
Rentals	12.4, 22.3	30,914,197	41,043,389	12,070,650
Utilities and communication		25,628,079	22,801,863	9,075,640
Commission		22,370,802	40,772,086	30,922,895
Transportation and travel		12,463,231	19,191,855	13,977,232
Impairment losses on property and equipment	9	7,394,742	-	-
Representation and entertainment		1,004,406	242,596	445,624
Professional fees		326,169	1,829,283	1,678,765
Miscellaneous		101,331,538	27,657,433	25,241,841
		P 5,422,776,475	P 3,754,741,525	P 2,862,147,364

15. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the years ended December 31, 2019, 2018 and 2017 are presented below.

	Notes	2019	2018	2017
Bunkering	7, 19.2	P **1,983,576,307**	P 1,243,088,820	P 867,597,634
Depreciation and amortization	9, 11	**1,272,582,798**	868,058,074	818,757,177
Salaries and employee benefits	16.1	**1,206,410,646**	915,416,994	556,278,918
Outside services		**351,586,902**	258,445,819	156,310,632
Repairs and maintenance	7	**279,617,365**	135,305,059	143,485,999
Insurance		**255,458,720**	149,914,746	131,132,352
Port expenses		**205,556,151**	148,475,361	150,630,581
Taxes and licenses		**169,398,443**	135,759,607	83,877,950
Supplies	7	**97,192,987**	118,923,474	58,233,572
Charter hire fees		**86,839,201**	240,372,627	98,368,503
Rentals	12.4, 19.3, 22.3	**80,869,617**	78,560,530	42,592,958
Cost of inventories sold		**69,140,884**	11,217,099	37,614,552
Utilities and communication		**55,774,724**	39,975,613	29,305,379
Transportation and travel		**42,950,365**	50,245,939	35,995,891
Professional fees		**32,109,535**	33,573,889	53,393,537
Commission		**26,384,282**	53,176,152	37,080,468
Impairment losses on property and equipment	9	**7,394,742**	-	-
Representation and entertainment		**7,277,254**	22,085,995	15,438,646
Advertising and promotions		**5,623,352**	6,205,400	8,151,043
Miscellaneous	19.8(b)	**183,203,810**	146,450,530	67,574,483
		P **6,418,948,085**	P 4,655,251,728	P 3,391,820,275

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 **5,422,776,475**	P 3,754,741,525	P 2,862,147,364
Other operating expense		**996,171,610**	900,510,203	529,672,911
		P **6,418,948,085**	P 4,655,251,728	P 3,391,820,275

16. SALARIES AND EMPLOYEE BENEFITS

16.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the years ended December 31, 2019, 2018 and 2017 are presented below.

	Notes	2019	2018	2017
Short-term employee benefits		P **1,091,173,191**	P 781,712,606	P 456,034,336
Other employee benefits		**79,382,427**	86,363,247	46,867,344
Bonus and incentives		**22,599,370**	22,562,320	37,365,878
Post-employment benefits	16.2(b)	**13,255,658**	24,778,821	16,011,360
	15	P **1,206,410,646**	P 915,416,994	P 556,278,918

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 746,460,089	P 589,964,580	P 363,097,068
Other operating expenses		459,950,557	325,452,414	193,181,850
	15	P 1,206,410,646	P 915,416,994	P 556,278,918

16.2 Post-employment Defined Benefit

(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 years ended December 31, 2019 and 2018.

(i) Post-employment Benefit Asset

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

	2019	2018
Fair value of plan assets	P 11,689,387	P 48,867,276
Present value of the obligation	(4,015,489)	(36,566,566)
	P 7,673,898	P 12,300,710

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

	2019	2018
Balance at beginning of year	P 36,566,566	P 32,885,129
Reclassifications	(32,551,077)	8,472,010
Current service cost	340,578	6,956,458
Interest cost	133,991	2,357,357
Actuarial loss (gains) due to changes in:		
Financial assumptions	438,755	(8,660,432)
Experience assumptions	1,291,470	(3,524,533)
Demographic assumptions	-	(702,855)
Benefits paid	-	(1,216,568)
Balance at end of year	P 4,015,489	P 36,566,566

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

	2019	2018
Balance at beginning of year	P 48,867,276	P 41,456,400
Reclassifications	(37,177,889)	4,179,665
Contributions	-	3,834,532
Interest income	752,124	2,515,640
Return on plan assets (excluding amounts included in net interest)	(728,606)	(1,902,393)
Benefits paid	-	(1,216,568)
Balance at end of year	P 11,689,387	P 48,867,276

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

	2019	2018
Cash and cash equivalents	P 6,582	P 5,319,102
Debt and equity securities:		
FVTPL	4,969,471	32,603,108
FVOCI	6,685,919	10,237,375
Others	27,415	707,691
	P 11,689,387	P 48,867,276

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 P0.02 million and P0.6 million in 2019 and 2018, respectively.

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.

(ii) Post-employment Benefit Obligation

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

	2019	2018
Present value of the obligation	P 113,011,020	P 35,162,375
Fair value of plan assets	(56,482,439)	-
	P 56,528,581	P 35,162,375

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

	2019	2018
Balance at beginning of year	P 35,162,375	P 42,261,263
Actuarial loss (gains) due to changes in:		
Financial assumptions	23,257,102	(2,787,177)
Experience assumptions	(10,991,338)	(3,212,270)
Demographic assumptions	(3,874,107)	(10,373,729)
Reclassifications	32,751,497	(9,922,505)
Balance from acquired subsidiary	19,727,562	-
Current service cost	12,915,080	17,822,363
Interest cost	6,612,816	1,374,430
Benefits paid	(2,549,967)	-
Balance at end of year	P 113,011,020	P 35,162,375

The details of the fair value of plan assets in 2019 are presented below.

Balance from acquired subsidiary	P	15,896,016
Reclassification		37,201,407
Interest income		3,973,144
Contributions		222,664
Benefits paid	(	1,861,753)
Remeasurements		1,050,961
Balance at end of year	P	56,482,439

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

Cash and cash equivalents	P	94,116
Debt and equity securities:		
FVTPL		51,523,907
FVOCI		4,326,052
Others		538,364
	P	56,482,439

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 P5.0 million in 2019. 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 consolidated statement of profit or loss and consolidated statements of comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Notes		2019		2018		2017
Recognized in profit or loss:							
Current service cost	16.1	P	13,255,658	P	24,778,821	P	16,011,360
Net interest expense	17.1		3,256,659		1,216,147		695,650
		P	16,512,317	P	25,994,968	P	16,707,010
Recognized in other comprehensive loss:							
Net actuarial loss (gain)		P	10,121,881	(P	29,260,996)	(P	33,236)
Return on plan assets (excluding amounts included in net interest expense)		(	322,355)		1,902,393		1,351,100
	20.2	P	9,799,526	(P	27,358,603)	P	1,317,864

Current service cost is allocated and presented in the consolidated statements of profit or loss under the following accounts:

	Notes		2019		2018		2017
Cost of sales and services	14	P	**9,531,215**	P	11,116,253	P	6,094,866
Other operating expenses			**3,724,443**		13,662,568		9,916,494
	16.1	P	**13,255,658**	P	24,778,821	P	16,011,360

The net interest expense incurred 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 17.1).

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 December 31, 2019 and 2018, the following actuarial assumptions were used:

	2019	2018
Discount rates	**5.10% - 7.40%**	5.70%
Expected rate of salary increase	**4.60% - 5.20%**	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. 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, 2019 and 2018.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2019			
Discount rate	**+/- 1.0%**	**(P 10,682,360)**	**P 13,180,776**
Salary growth rate	**+/- 1.0%**	**12,234,856**	**(10,090,930)**
December 31, 2018			
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 December 31, 2019 and 2018 consists of equity and debt securities. 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 December 31, 2019 and 2018, the plan is underfunded by P48.8 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 ten years from December 31, 2019 and 2018 follows:

	2019	2018
One to five years	P 54,175,096	P 42,489,272
More than five years but not more than ten years	74,055,162	74,866,629
	P 128,230,258	P 117,355,901

17. OTHER INCOME (CHARGES)

17.1 Finance Costs

The details of this account for the years ended December 31, 2019, 2018 and 2017 are shown below.

	Notes	**2019**	2018	2017
Interest expense on :				
Interest-bearing loans	12	P 1,150,536,861	P 761,501,452	P 507,291,749
Lease liabilities		63,248,608	-	-
Deficiency income taxes		6,951,794	14,216,262	-
Post-employment benefits	16.2(b)	3,256,659	1,216,147	695,650
		1,223,993,922	776,933,861	507,987,399
Bank charges		1,985,420	2,255,468	5,956,372
Foreign currency exchange losses – net		-	56,198,815	-
Impairment loss		-	-	3,035,462
Others		64,024	-	-
		P 1,226,043,366	P 835,388,144	P 516,979,233

17.2 *Finance Income*

The breakdown of this account for the years ended December 31, 2019, 2018 and 2017 are shown below.

	2019	2018	2017
Foreign currency exchange gains	P 21,547,320	-	P 5,526,564
Interest income	3,209,084	3,626,087	4,875,196
Gain on sale and leaseback	-	2,927,596	-
	P 24,756,404	P 6,553,683	P 10,401,760

17.3 *Other Income*

Presented below are the details of other income for the years ended December 31, 2019, 2018 and 2017.

	Notes	2019	2018	2017
Handling and trucking		P 80,228,836	P 71,878,889	P 34,729,429
Gain on sale of property and equipment		30,909,664	1,326,971	-
Rental income	19.3, 22.2	5,102,526	16,524,911	7,422,943
Gain on reversal of impairment losses on property and equipment	9	2,214,620	-	-
Rebates		-	11,000,086	14,828,417
Insurance claims		-	-	62,784,384
Miscellaneous		38,891,141	37,871,559	24,156,358
		P 157,346,787	P 138,602,416	P 143,921,531

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.

In 2018 and 2017, 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 years, 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.

Starlite had registered MV Archer, MV Saturn, MV Eagle, MV Reliance and MV Pioneer which commenced in March 2017, August 2016, May 2016, April 2016 and December 2015, respectively, for a period of four years. In 2019, Starlite had registered MV Starlite Sprint 1, which commenced on September 2019 for a period of four years.

SPFI had also registered MV Stella Del Mar on April 2017 for a period of four years. SGFI had also registered MV Salve Regina, MV Stella Maris, MV Trans-Asia 20 in November 2018, June 2019 and December 2019, respectively, for a period of four years.

In 2019, Trans-Asia had also registered MV Trans-Asia 19, which commenced in January 2019 with a period of four years.

SFFC had also registered MV St. Camael and MV St. Sariel, which commenced on July 2017 for a period of four years.

As a registered entity, Starlite, SPFI, SGFI, Trans-Asia and SFFC are 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.

18.2 Current and Deferred Taxes

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

	2019	2018	2017
Recognized in profit or loss:			
Regular corporate income tax	P 26,069,160	P 142,356,824	P 154,047,913
Minimum corporate income tax (MCIT)	2,102,988	136,292	806,885
Final tax at 20% and 7.5%	595,334	362,177	763,600
	28,767,482	142,855,293	155,618,398
Deferred tax income relating to origination and reversal of temporary differences	(169,506,384)	(214,451,915)	(269,484,924)
	(P 140,738,902)	(P 71,596,622)	(P 113,866,526)
Recognized in other comprehensive income —			
Deferred tax expense relating to origination and reversal of temporary differences	P 159,150,294	P 58,556,375	P 3,139,645

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

	2019	2018	2017
Tax on pretax profit (loss) at 30%	(P 291,749,971)	(P 186,638,873)	P 14,205,959
Adjustments for income subjected to lower tax rates	(52,725)	(121,908)	(549,211)
Tax effects of:			
Nondeductible expenses	181,694,015	173,996,511	30,684,374
Nontaxable income	(19,512,974)	-	-
Net profit on BOI-registered activities	(11,117,247)	(57,360,493)	(36,538,741)
Benefit from previously unrecognized deferred tax assets (DTA)	-	(3,518,372)	-
Derecognition of unutilized DTA	-	3,357,615	9,918,118
Gain on bargain purchase	-	(1,311,102)	-
Pre-acquisition income	-	-	31,612,733
Deductible expenses charged to APIC	-	-	(169,579,640)
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)	-	-	3,782,582
Excess of optional standard deduction	-	-	2,597,300
	(P 140,738,902)	(P 71,596,622)	(P 113,866,526)

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

	2019	2018
NOLCO	P 493,264,822	P 393,628,519
Revaluation reserves on property and equipment	(128,995,682)	(123,064,147)
Post-employment benefit obligation	11,678,604	5,451,771
Capitalized borrowing costs	(6,972,952)	(7,069,055)
MCIT	3,818,851	5,883,572
Impairment losses on trade and other receivables	1,162,230	2,507,974
Accrued expenses	890,150	72,000
Unamortized past service cost	315,557	-
Unrealized foreign currency exchange losses – net	-	4,948,745
Impairment losses on property and equipment	-	611,054
Others	-	375,132
	P 375,161,580	P 283,345,565

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

	2019	2018
Revaluation reserves on property and equipment	(P 168,049,371)	(P 100,009,056)
Revaluation surplus on disposed vessel	(3,036,983)	(3,036,983)
Impairment losses on long-term financial assets	2,721,268	2,721,268
Post-employment benefit obligation	2,448,967	1,857,339
Accrued expenses	2,057,831	2,057,831
NOLCO	410,883	14,197,287
Provisions	137,535	137,535
Impairment losses on trade and other receivables	51,291	51,291
Unrealized foreign currency exchange gains – net	4,490	4,490
MCIT	-	224,834
Others	(677,264)	(677,264)
	(P 163,931,353)	(P 82,471,428)

The net deferred tax income (expense) 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 income (expense):						
Revaluation reserves of vessels	P 89,662,657	(P 163,634,508)	P 77,836,409	(P 50,348,794)	P 8,528,446	(P 3,549,886)
NOLCO	85,849,899	-	129,206,015	-	262,600,813	-
Unrealized foreign currency loss – net	(4,948,745)	-	5,536,625	-	(6,636,437)	-
Post-employment benefit obligation	2,334,247	4,484,214	5,715,571	(8,207,581)	4,940,882	395,359
MCIT	(2,289,555)	-	(2,414,707)	-	189,554	-
Impairment loss on receivables	(1,345,744)	-	-	-	910,639	-
Others	243,625	-	(1,247,998)	-	(995,641)	14,882
	P 169,506,384	(P 159,150,294)	P 214,631,915	(P 58,556,375)	P 269,538,256	(P 3,139,645)

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

Year	Original Amount	Applied in Previous Periods	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2019	P 426,330,880	P -	P -	P -	P 426,330,880	2022
2018	461,300,595	-	79,006	-	461,221,589	2021
2017	895,541,094	P 21,134,127	116,373,754	-	758,033,213	2020
2016	18,417,131	18,417,131	-	-	-	
	P 1,801,589,701	P 39,551,258	P 116,452,760	P -	P 1,645,585,683	
MCIT:						
2019	P 2,102,988	P -	P -	P -	P 2,102,988	2022
2018	942,908	-	-	-	942,908	2021
2017	772,955	-	-	-	772,955	2020
2016	4,392,543	-	1,744,011	P 2,648,532	-	
	P 8,211,394	P -	P 1,744,011	P 2,648,532	P 3,818,851	

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 2019 and 2018, the Group opted to claim itemized deductions in computing for its income tax due. In 2017, Trans-Asia, FTC and DGMSI opted to claim OSD; all other entities in the Group claimed itemized deductions.

19. RELATED PARTY TRANSACTIONS

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

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

		Amounts of Transactions			Outstanding Balances	
Related Party Category	Notes	2019	2018	2017	2019	2018
Parent –						
Cash advances granted	19.4	(P 2,283,754,735)	P 518,714,995	P 2,428,234,009	P 663,194,269	P 2,946,949,004
Associate –						
Chartering of services rendered	19.1	237,132,921	376,645,369	69,405,000	18,525,327	38,277,400
Related parties under common ownership:						
Chartering of services rendered	19.1	987,960,089	680,403,799	531,535,742	305,378,198	185,639,320
Fuel purchases	19.2	1,769,113,489	1,504,293,849	363,571,237	(1,050,164,518)	(67,824,287)
Acquisition of SFFC's shares	19.6	650,000,000	-	-	(640,956,087)	-
Acquisition of CSC's shares	19.6	-	-	-	(500,000,000)	(500,000,000)
Rental income	19.3	3,003,290	5,072,938	5,044,967	-	571,219
Rental expense	19.3	644,065	2,825,746	2,295,681	(57,748)	(408,341)
Donation	19.8(b)	360,000	360,000	360,000	(30,000)	(210,000)
Cash advances granted	19.4	(29,548,339)	120,405,421	(194,446,078)	151,057,866	180,606,205
Cash advances obtained	19.4	1,078,717,998	(1,004,673,484)	955,012,897	(1,114,816,666)	(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 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 December 31, 2019 and 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 December 31, 2019 and 2018 based on management's assessment.

19.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI, a related party under common ownership. 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 P165.5 million and P216.7 million as of December 31, 2019 and 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 December 31, 2019 and 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 Non-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 part of 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 December 31, 2018, is presented as part of Trade receivables under the Trade and Other Receivables account in the 2018 consolidated statement 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 December 31, 2019 and 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:

	2019	2018
Balance at beginning of year	P 3,127,555,209	P 2,488,434,793
Net advances (collections)	(2,313,303,074)	639,120,416
Balance at end of year	P 814,252,135	P 3,127,555,209

Based on management's assessment, no impairment loss is recognized in 2019 and 2018 related to the advances granted to related parties (see Note 25.2).

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

	2019	2018
Balance at beginning of year	P 36,098,668	P 1,040,772,152
Net advances (payments)	1,078,717,998	(1,004,673,484)
Balance at end of year	P 1,114,816,666	P 36,098,668

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, with fair value totaling P68.2 million and P48.9 million as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 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 and SFFC 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 20.3).

On October 9, 2019, the Company acquired all of the outstanding shares of SFFC from 2GO for a total consideration of P650.0 million. The carrying amounts of the total assets acquired and liabilities assumed at the time of acquisition amounted to P1,124.1 million and P545.8 million, respectively. The excess of the acquisition price over the net identifiable assets is presented as part of Goodwill account in the 2019 consolidated statement of financial position (see Note 23).

As of December 31, 2019 and 2018, the outstanding liability from these transactions amounting to P1,141.0 million and P500.0 million, respectively, is presented as Non-trade payables under the Trade and Other Payables account in the consolidated statement 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 P0.4 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 statements 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	**2,000,000,000**	2,000,000,000	**P2,000,000,000**	P 2,000,000,000
Issued and outstanding				
Balance at beginning and end of period	**1,821,977,615**	1,821,977,615	**P 1,821,977,615**	P 1,821,977,615

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.

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. As at December 31, 2019 and 2018, the Company's listed shares closed at P5.50 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 below.

	Revaluation of Property and Equipment (see Note 9)	Gain or Loss on AFS Financial Asset	Acturial Gain or Loss on PBO (see Note 16.2)	Share in OCI of Associates and a Joint Venture (see Note 10)	Cumulative translation adjustments	Total
Balance as of January 1, 2019	P 1,334,617,413	P -	P 53,959,943	P 108,049,607	P 1,242,692	P 1,497,869,655
Revaluation increment	632,951,901	-	-	-	-	632,951,901
Remeasurements of post-employment benefit obligation	-	-	(9,799,526)	(26,478,210)	-	(36,277,736)
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	(715,045)	(715,045)
Other comprehensive income before tax	632,951,901	-	(9,799,526)	(26,478,210)	(715,045)	595,959,120
Tax income (expense)	(163,634,508)	-	4,484,214	-	-	(159,150,294)
Other comprehensive income after tax	469,317,393	-	(5,315,312)	(26,478,210)	(715,045)	436,808,826
Transfer to retained earnings - Depreciation of revalued tankers	(157,642,430)	-	-	-	-	(157,642,430)
Balance at December 31, 2019	**P 1,646,292,376**	**P -**	**P 48,644,631**	**P 81,571,397**	**P 527,647**	**P 1,777,036,051**
Balance as of January 1, 2018	P 1,287,281,993	P -	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
Other comprehensive income before tax	167,829,312	-	27,358,603	-	1,466,209	196,654,124
Tax income (expense)	(50,348,794)	-	(8,207,581)	-	-	(58,556,375)
Other comprehensive income after tax	117,480,518	-	19,151,022	-	1,466,209	138,097,749
Transfer to retained earnings - Depreciation of revalued tankers	(70,145,098)	-	-	-	-	(70,145,098)
Balance at December 31, 2018	P 1,334,617,413	P -	P 53,959,943	P 108,049,607	P 1,242,692	P 1,497,869,655
Balance as of January 1, 2017	P 1,335,232,117	P 34,725	P 35,731,425	P -	P -	P 1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	(1,317,864)	-	-	(1,317,864)
Disposal of AFS financial assets	-	(49,607)	-	-	-	(49,607)
Revaluation increment	67,317,920	-	-	108,049,607	-	175,367,527
Pre-acquisition other comprehensive income	(55,484,964)	-	-	-	-	(55,484,964)
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	(223,517)	(223,517)
Other comprehensive income before tax	11,832,956	(49,607)	(1,317,864)	108,049,607	(223,517)	118,291,575
Tax income (expense)	(3,549,886)	14,882	395,359	-	-	(3,139,645)
Other comprehensive income after tax	8,283,070	(34,725)	(922,505)	108,049,607	(223,517)	115,151,930
Transfer to retained earnings - Depreciation of revalued tankers	(56,233,193)	-	-	-	-	(56,233,193)
Balance at December 31, 2017	P 1,287,281,994	P -	P 34,808,920	P 108,049,607	(P 223,517)	P 1,429,917,004

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 19.6).

20.4 Non-controlling Interest

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

20.5 Employee Stock Option Plan

On February 13, 2019, the BOD of the Company approved an Employee Stock Option Plan (the ESOP) covering all regular employees with at least one year of service from the date of grant. This was subsequently ratified by stockholders holding at least two-thirds of the outstanding capital stock on March 15, 2019. The objective of the ESOP is to recognize the loyalty, dedication and exemplary performance of the employees of the Company, thereby encouraging long-term commitment to the Company.

Under the ESOP, the Company shall initially reserve for exercise of stock options up to 56.3 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares, 66.67% of which were granted to existing employees as of the initial offering date (IOD) while the remaining 33.33% is reserved for employees hired after the IOD. Stock options may be granted within five years from the adoption of the ESOP and may be exercised within 10 years from the date of grant. The exercise price shall be based on the volume weighted average price of the Company 30 days prior to the IOD. The options shall vest for a period of one to five years from the initial offering date. The Company shall receive cash for the stock options.

As of December 31, 2019, pursuant to the ESOP, the Company has granted the option to its eligible employees to subscribe to 37.6 million shares of the Company. An option holder may exercise in whole or in part his vested option, provided that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. No options have vested as at December 31, 2019.

21. EARNINGS (LOSS) PER SHARE

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

	2019	2018	2017
Net profit (loss)	(P 831,761,000)	(P 550,532,956)	P 161,219,723
Divided by weighted average shares outstanding	1,821,977,615	1,821,977,615	1,309,830,939
Earnings (loss) per share – basic and diluted	(P 0.457)	(P 0.302)	P 0.123

In relation to the approved ESOP for eligible employees, the options exercisable by any of the option holders are considered as potentially anti-dilutive shares as at the end of December 31, 2019. There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2019 and 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 spaces in 2019 and 2018. The leases have terms from one to five years, with renewal options, and include annual escalation from 5.0% to 10.0%. Commitments amounted to P635,685 as of December 31, 2018, and is expected to be settled within a year. As of December 31, 2019, the Group does not have operating lease commitments as a lessor as the leases have already expired during the year.

Rent income amounted to P5.1 million, P16.5 million and P7.4 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).

The Group also entered into BB agreements, which qualifies as a lease. Income recognized under BB agreements amounted to P152.4 million, P157.4 million and P130.7 million in 2019, 2018 and 2017, respectively. These are presented as part of Charter fees under Revenues in the consolidated statements of profit or loss. Commitments relating to these agreements as of December 31, 2019 and 2018 are as follows:

	2019	2018
Within one year	P 155,082,336	P 161,854,224
After one year but not more than five years	161,544,100	330,452,374
	P 316,626,436	P 492,306,598

22.3 Operating Lease Commitments – Group as Lessee (2018)

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 December 31, 2018:

Within one year	P 105,661,233
More than one year but not more than five years	156,174,921
More than five years	76,956,496
	P 338,792,650

The related security deposit on this operating lease amounted to P81.2 million and P11.5 million as of December 31, 2019 and 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 (2018)

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 December 31, 2018 follows:

	MLP	PV of NMLP
Within one year	P 29,808,914	P 24,207,330
After one year but not more than five years	39,414,096	35,673,912
	69,223,010	59,881,242
Amounts representing finance charges	(9,341,768)	-
	P 59,881,242	P 59,881,242

Total liability relating the finance lease is shown as part of Interest-bearing Loans and Borrowings 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 December 31, 2019 and 2018, the Group has unused lines of credit amounting to P64.0 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.

On October 7, 2019, the Company, Trans-Asia and 2GO filed a Joint Manifestation and Compliance stating that the Parties are unable to comply with the Voluntary Commitments and, as a result, PCC ordered the setting aside of the Decision approving the Trans-Asia acquisition and reverting the transaction to merger review.

On October 25, 2019, the Company received the Request for Information / Documents issued by the PCC on the Trans-Asia acquisition, and on November 26, 2019, the PCC issued another order requiring the submission of additional documents / information largely pertaining to 2Go, which were both complied with by the Company.

Management is optimistic that it will be able to comply with the requirements of the PCC regarding the Trans-Asia acquisition, and that the pending matter will not have an adverse effect on the operations and financial condition of the Group.

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. S-1190 was delivered on October 2019 while S-1199 will be delivered on April 2020. As part of these shipbuilding agreements, the Group has paid an amount equivalent to P1,128.9 million and P180.6 million in 2019 and 2018, respectively, and is presented as part of Vessels and vessel equipment and CIP under the Property and Equipment account of the consolidated statement of financial position (see Note 11). Total capital commitments amounted to P576.5 million and P1,886 million as of December 31, 2019 and 2018, respectively.

Also, on June 20, 2019, the Company signed another shipbuilding agreement for the construction of a 123-m Bed/Seat Ro-Ro type passenger vessel. This vessel will be built in Fukuoka Shipyard and will be delivered in June 2021. As part of the shipbuilding agreement, the Group has initially paid P71.7 million and is presented as part of CIP under the Property and Equipment account of the 2019 consolidated statement of financial position.

22.9 Warehouse Construction

On September 19, 2019, the Group entered into a Construction Contract with a general contractor to undertake the construction of its central distribution warehouse for a total amount of P390.2 million, exclusive of VAT. As part of the agreement, the Group initially paid 15% mobilization fees and is included as part of Advances to suppliers under the Other Non-Current Assets account in the 2019 consolidated statement of financial position (see Note 11).

22.10 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

Goodwill recognized primarily comprises the value of expected synergies from the acquisition of the subsidiaries as part of the Group's expansion and is derived by deducting the fair values of the net assets acquired as of the date of acquisition from the amount of consideration paid. The movements of this account as of December 31 are as follows:

	2019	2018
Balance at beginning of year	**P 5,641,434,544**	P 5,637,918,869
Additions due to business combinations	**71,688,064**	3,515,675
Balance at end of year	**P 5,713,122,608**	P 5,641,434,544

(a) 2019 Acquisitions

On October 9, 2019, the Company acquired 100% ownership interest in SFFC for a total consideration amounting to P650.0 million. The following are the provisional fair values of the identifiable assets acquired and liabilities assumed from this subsidiary as at the date of acquisition:

Cash	P	40,417,324
Trade and other receivables		6,233,897
Inventories		10,395,342
Other current assets		28,545,381
Property and equipment - net		979,609,198
Other non-current assets		58,861,116
Trade and other payables	(	160,009,581)
Interest-bearing loans	(	385,740,741)
	P	578,311,936

The excess of the acquisition costs over the net assets of SFFC amounting to P71.7 million is presented as part of Goodwill in the 2019 consolidated statement of financial position. The accounting for this business combination was determined provisionally as the Company is still finalizing the fair valuation of the assets acquired.

The revenues and net loss of SFFC that were included in the 2019 consolidated financial statements amounted to P205.2 million and P14.7 million, respectively.

(b) 2018 Acquisitions

On October 22 and August 10, 2018, the Company acquired 100% ownership interest in SPFI and SGFI, respectively, 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 are presented below.

	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	P 95,016,184	P 10,646,825	P 105,663,009

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 consolidated statements of financial position.

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.

The revenues and net profit (loss) of SPFI and SGFI that were included in the 2018 consolidated financial statements are as follows:

2018	SPFI	SGFI	Total
Revenues	P 9,000,000	P 16,500,000	P 125,135,813
Net Profit (Loss)	P 4,963,842	(P 7,752,864)	P 4,051,247

(c) *2017* Acquisitions

On March 27, November 8 and November 9, 2017, the Company acquired 100% ownership interest in UIBV, WSI and Starlite, respectively, 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	P 2,130,486,797	P 121,500,681	P 510,095,198	P 2,762,082,676

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 consolidated statements of financial position.

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 liabilities was recognized in the consolidated statements of financial position.

Goodwill is subject to annual impairment testing as required under PAS 36. 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 five-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 five-year period. Management also assessed that the entities will continue as going concern entities 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 used market-based valuation methodologies based on the subsidiary's five year financial forecasts and used industry data and comparable metrics. Among these were trading analysis using comparable shipping and logistics companies that are publicly-listed within the Association of Southeast Asian Nations and analysis of precedent majority and minority stake transactions within the comparable industry in the Southeast Asian region. 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 as of December 31, 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) Tankering 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 2019, 2018 and 2017.

24.4 Analysis of Segment Information

The tables below present revenue and profit information regarding business segments for the years ended December 31, 2019 and 2018 and 2017 and assets and liabilities information regarding segments as at December 31, 2019 and 2018.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
2019								
SEGMENT RESULTS								
Sales to external customers	P -	P 1,978,682,852	P 338,321,437	P 4,056,243,693	P 458,661,865	P 141,634,496	P -	P 6,973,544,343
Intersegment sales	388,311,675	-	80,156,825	10,200,000	-	455,525,924	(934,194,428)	-
Total revenues	388,311,675	1,978,682,852	418,478,262	4,066,443,693	458,661,865	597,160,420	(934,194,428)	6,973,544,343
Cost of sales and services	-	1,605,856,363	316,032,833	3,355,107,460	251,712,924	439,949,644	(545,882,749)	5,422,776,475
Other operating expenses	198,804,313	245,629,481	56,023,539	629,915,848	125,861,244	130,591,698	(390,654,512)	996,171,610
Operating profit (loss)	189,507,366	127,197,008	(33,734,935)	71,220,385	81,087,697	26,619,078	2,342,833	554,596,258
Finance costs	(86,935,787)	(569,335,493)	(9,678,457)	(552,882,476)	(3,693,143)	(3,518,011)	-	(1,226,043,366)
Share in net income of an associate	(483,155,985)	-	-	-	-	-	-	(483,155,985)
Finance income	6,434,555	9,499,865	9,184	8,298,430	439,044	75,322	-	24,756,404
Other income	72,528,076	156,049,682	5,400,089	124,498,767	420,547	2,792,459	(204,342,833)	157,346,787
Profit (loss) before tax	(301,621,771)	(276,588,938)	(38,004,118)	(348,864,894)	78,254,145	25,968,848	(202,000,000)	(972,499,902)
Tax expense (income)	34,126,083	(115,350,578)	16,370,749	(116,460,090)	28,002,742	12,572,192	-	(140,738,902)
Net profit (loss)	(P 335,747,854)	(P 161,238,360)	(P 54,374,867)	(P 232,404,804)	P 50,251,403	P 13,396,656	(P 202,000,000)	(P 831,761,000)
SEGMENT ASSETS AND LIABILITIES								
Total assets	P 19,924,076,266	P 14,818,151,787	P 1,249,471,699	P 16,108,395,993	P 457,694,586	P 472,657,869	(P 16,381,459,024)	P 36,648,989,177
Total liabilities	P 6,200,252,653	P 10,287,844,825	P 606,525,683	P 13,780,104,720	P 242,400,788	P 174,210,951	(P 7,095,895,831)	P 24,195,443,789

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
2018								
SEGMENT RESULTS								
Sales to external customers	P -	P 1,757,891,739	P 333,938,349	P 2,718,512,313	P 286,904,889	P 74,784,753	P -	P 5,172,032,043
Intersegment sales	270,600,136	-	27,561,495	-	-	343,386,758	(641,548,389)	-
Total revenues	270,600,136	1,757,891,739	361,499,844	2,718,512,313	286,904,889	418,171,511	(641,548,389)	5,172,032,043
Cost of sales and services	-	1,280,255,117	236,836,409	2,108,489,121	156,265,142	343,843,989	(370,948,253)	3,754,741,525
Other operating expenses	213,688,403	303,991,393	66,622,200	467,902,115	63,339,429	59,400,047	(274,433,385)	900,510,203
Operating profit (loss)	56,911,733	173,645,228	30,479,740	142,121,077	67,300,318	14,927,475	3,833,249	516,780,315
Finance costs	(67,130,802)	(472,419,797)	(5,063,296)	(287,529,810)	(1,708,695)	(1,535,744)	-	(835,388,144)
Share in net income of an associate	(453,048,188)	-	-	-	-	-	-	(453,048,188)
Finance income	260,327	551,970	120,186	4,787,732	822,973	10,495	-	6,553,683
Gain on bargain purchase	4,370,340	-	-	-	-	-	-	4,370,340
Other income	2,422,448	13,497,623	126,180	125,223,180	-	1,166,233	(3,833,249)	138,602,416
Profit (loss) before tax	(456,214,142)	(284,724,975)	25,662,810	(15,397,821)	66,414,596	14,568,459	-	(622,129,578)
Tax expense (income)	8,087,094	(107,518,851)	16,698,734	(14,857,071)	20,138,887	5,854,585	-	(71,596,622)
Net profit (loss)	(P 464,301,236)	(P 177,206,124)	P 8,964,076	(P 540,750)	P 46,275,709	P 8,713,874	P -	(P 550,532,956)
SEGMENT ASSETS AND LIABILITIES								
Total assets	P 19,079,431,497	P 14,365,262,097	P 1,116,384,381	P 9,796,950,150	P 288,718,724	P 138,661,865	(P 12,494,153,390)	P 32,291,255,323
Total liabilities	P 4,949,434,237	P 9,708,083,288	P 583,364,648	P 8,065,317,881	P 115,344,703	P 118,707,818	(P 4,173,950,458)	P 19,366,302,118
2017								
SEGMENT RESULTS								
Sales to external customers	P -	P 1,227,036,207	P 261,321,170	P 2,180,760,492	P 240,049,535	P -	P -	P 3,909,167,404
Intersegment sales	203,293,982	-	12,473,814	-	-	204,735,092	(420,502,888)	-
Total revenues	203,293,982	1,227,036,207	273,794,984	2,180,760,492	240,049,535	204,735,092	(420,502,888)	3,909,167,404
Cost of sales and services		1,053,472,689	147,451,363	1,569,346,286	125,538,141	183,547,791	(217,208,906)	2,862,147,364
Other operating expenses	60,674,201	189,548,416	50,077,935	247,416,585	34,357,486	39,948,017	(92,349,729)	529,672,911
Operating profit (loss)	142,619,781	(15,984,898)	76,265,686	363,997,621	80,153,908	(18,760,716)	(110,944,253)	517,347,129
Other income (charges) - net	(54,433,571)	(209,382,650)	(11,591,672)	(84,700,326)	(1,181,265)	(272,925)	(3,055,747)	(364,618,156)
Profit (loss) before pre-acquisition income and tax	88,186,210	(225,367,548)	64,674,014	279,297,295	78,972,643	(19,033,641)	(114,000,000)	152,728,973
Pre-acquisition income	-	-	-	(59,764,337)	(45,611,439)	-	-	(105,375,776)
Profit (loss) before tax	88,186,210	(225,367,548)	64,674,014	219,532,958	33,361,204	(19,033,641)	(114,000,000)	47,353,197
Tax expense (income)	(196,012,113)	(43,543,308)	21,622,850	84,176,814	23,963,290	(4,074,059)	-	(113,866,526)
Net profit (loss)	P 284,198,323	(P 181,824,240)	P 43,051,164	P 135,356,144	P 9,397,914	(P 14,959,582)	(P 114,000,000)	P 161,219,723

The Group earned revenues from a certain related party, accounting for 14%, 13% and 13% of the total consolidated revenues of the Group in 2019, 2018 and 2017 (see Note 19.1).

24.5 Disaggregation of Revenues from Contracts with Customers

When the Group 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.

Tankering 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 charges amounting to P93.5 million and P24.0 million in 2019 and 2018, respectively, and sale of goods amounting to P127.6 million and P36.0 million in 2019 and 2018, respectively, which are recognized at point in time and those arising from BB agreements amounting to P149.8 million and P157.3 million in 2019 and 2018, respectively, 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 26. The main types of risks are market risk, credit risk and liquidity risk.

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

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 and interest rate 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 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 December 31, 2019 and 2018 closing rates follow:

	2019	2018
Financial assets	**P 2,433,568**	P 10,647,346
Financial liabilities	**(236,805,333)**	(316,344,000)
Net exposure	**(P 234,371,765)**	(P 305,696,654)

If the Philippine peso had strengthened against the U.S. dollar, loss before tax in 2019 and 2018 would have decreased by P30.4 million and P39.6 million, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have increased loss before tax in 2019 and 2018, respectively, by the same amount. This sensitivity of the net result for the period assumes a +/- 12.97% and +/- 12.95% change of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2019 and 2018, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in 12 months for 2019 and 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 December 31, 2019 and 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 financial liabilities have either fixed interest rates or are noninterest-bearing.

Cash in banks are tested on a reasonably possible change of +/- 0.68% and +/- 0.54% in 2019 and 2018, respectively. Bank loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.46% 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 twelve 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 +/- P3.3 million and +/-P1.9 million for the years ended December 31, 2019 and 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	2019	2018
Cash and cash equivalents	4	P 375,228,505	P 443,495,969
Trade and other receivables – net (excluding advances to officers and employees)	5	2,204,826,665	1,369,911,121
Restricted cash	8, 11	20,748,270	1,637,081
Security deposits	8, 11	136,616,637	40,529,028
Advances to related parties	19.4	814,252,135	3,127,555,209
		P 3,551,672,212	P 4,983,128,408

None of the financial assets are secured by collateral or other credit enhancements, except for cash and trade and other receivables 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 36 months before December 31, 2019 and 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 December 31, 2019 and 2018 was determined based on months past due, as follows for trade receivables (see Note 5).

	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
December 31, 2019					
Expected loss rate	0.00%	0.00%	0.00%	11.37%	
Gross carrying amount - trade receivables	919,964,891	504,236,808	416,947,104	171,569,269	2,012,718,072
Loss allowance	-	-	-	19,504,177	19,504,177
December 31, 2018					
Expected loss rate	0.00%	0.00%	0.00%	13.35%	
Gross carrying amount - trade receivables	910,679,168	192,273,740	54,062,333	131,821,567	1,288,836,808
Loss allowance	-	-	-	17,601,775	17,601,775

No additional impairment was recognized in relation to the Group's trade receivables as the historical loss rates from existing customers are low and deemed insignificant. The Group also considers the existence of financial liabilities, which may be offset against the outstanding trade receivables 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. For due from agencies and claims receivable, no impairment losses were also recognized as these are assessed to be recoverable as there were no historical defaults from the authorized transacting agencies.

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

Furthermore, the Group's advances to related parties are repayable on demand and the contractual period refers only to the 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 December 31, 2019 and 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 short-term and 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 short-term and 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 December 31, 2019, the Group's financial liabilities, excluding lease liabilities, have contractual maturities which are presented below.

		Current		Non-current	
	Notes	Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 3,652,965,371	P 2,765,901,031	P 8,007,417,469	P 3,348,327,507
Trade and other payables (except for government-related obligations)	13	10,191,038,037	-	-	-
Advances from related parties	19.4	557,408,333	557,408,333	-	-
		P 14,401,411,741	P 3,323,309,364	P 8,007,417,469	P 3,348,327,507

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	-	-
		P 8,838,050,974	P 1,148,551,065	P 9,740,720,792	P 2,408,802,755

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.

	Notes	2019		2018	
		Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets:					
At amortized cost:					
Cash and cash equivalents	4	P 375,228,505	P 375,228,505	P 443,495,969	P 443,495,969
Trade and other receivables - net	5	2,204,826,665	2,204,826,665	1,369,911,121	1,369,911,121
Restricted cash	8, 11	20,748,270	20,748,270	1,637,081	1,637,081
Security deposits	8, 11	136,616,637	136,616,637	40,529,028	40,529,028
Advances to related parties	19.4	814,252,135	814,252,135	3,127,555,209	3,127,555,209
Financial Assets at FVTPL —					
Equity securities	6	3,947,736	3,947,736	3,947,736	3,947,736
		P 3,555,619,948	P 3,555,619,948	P 4,987,076,144	P 4,987,076,144
Financial Liabilities —					
At amortized cost:					
Trade and other payables	13	P 10,191,038,037	P 10,191,038,037	P 3,146,020,255	P 3,146,020,255
Interest-bearing loans	12	16,307,121,192	16,307,121,192	15,619,861,853	15,619,861,853
Advances from related parties	19.4	1,114,816,666	1,114,816,666	36,098,668	36,098,668
		P 27,612,975,895	P 27,612,975,895	P 18,801,980,776	P 18,801,980,776

See Notes 2.5 and 2.10 for the description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 25.

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 Udenna. 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 P1,138.2 million and P3,352.0 million as of December 31, 2019 and 2018, respectively, may be offset against the outstanding balances of trade and other payables and cash advances obtained from related parties totaling P3,306.0 million and P604.5 million as of December 31, 2019 and 2018, respectively.

The Group also has certain trade receivables which were used as collateral to secure the payment of certain interest-bearing loans (see Notes 5 and 12.1). Certain cash balances are also restricted for use to secure line of credits with banks (see Notes 8 and 11).

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 December 31, 2019 and 2018.

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

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

	2019			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
At amortized cost:				
Cash and cash equivalents	P 375,228,505	P -	P -	P 375,228,505
Trade and other receivables - net	-	-	2,204,826,665	2,204,826,665
Restricted cash	20,748,270	-	-	20,748,270
Security deposits	-	-	136,616,637	136,616,637
Advances to related parties	-	-	814,252,135	814,252,135
	P 395,976,775	P -	P 3,155,695,437	P 3,551,672,212
Financial Liabilities —				
At amortized cost:				
Trade and other payables	P -	P -	P 10,191,038,037	P 10,191,038,037
Interest-bearing loans	-	-	16,307,121,192	16,307,121,192
Advances from related parties	-	-	1,114,816,666	1,114,816,666
	P -	P -	P 27,612,975,895	P 27,612,975,895

	2018			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Loans and Receivables:				
Cash and cash equivalents	P 443,495,969	P -	P -	P 443,495,969
Trade and other receivables - net	-	-	1,369,911,121	1,369,911,121
Restricted cash	1,637,081	-	-	1,637,081
Security deposits	-	-	40,529,028	40,529,028
Advances to related parties	-	-	3,127,555,209	3,127,555,209
	P 445,133,050	P -	P 4,537,995,358	P 4,983,128,408
Financial Liabilities:				
At amortized cost:				
Trade and other payables	P -	P -	P 3,146,020,255	P 3,146,020,255
Interest-bearing loans	-	-	15,619,861,853	15,619,861,853
Advances from related parties	-	-	36,098,668	36,098,668
	P -	P -	P 18,801,980,776	P 18,801,980,776

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 appraisers 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 appraisers in discussion with the Group's management with respect to the determination of the inputs such as the size, age, capacity 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:

	2019	2018
Total liabilities	**P 28,550,652,121**	P19,366,302,118
Total equity	**12,453,545,388**	12,924,953,205
Debt-to-equity ratio	**2.29 : 1.00**	1.50 : 1.00

The Group's goal in capital management is to maintain a debt-to-equity structure ratio which is in line with the Group's covenants related to its bank 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.